

CHINA'S SOCIALIST ECONOMY



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An Outline History
(1949-1984)

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Preface

In the 35 years since the founding of the People's Republic of China, the Chinese people have scored tremendous achievements in the socialist revolution and socialist construction in a poor, backward and populous country. Much positive experience has been gained, initially demonstrating the superiority of the socialist system. The road we have travelled, however, has by no means been a smooth one. We have also made many mistakes and learnt many lessons. By reviewing the history of this period and studying the whys and wherefores, realistically and conscientiously summing up our experiences and lessons, gradually obtaining a better grasp of China's actual conditions and the objective laws governing economic development, we can proceed more smoothly in our efforts to improve our economic work.

Today sees a continuation of the history of yesterday. Without an understanding of the past it would be impossible to have a profound understanding of the present. The Chinese people, currently engaged in the socialist modernization drive, are creating a new situation in all fields of endeavour. They are carrying out reforms of the economic system and building socialism with Chinese characteristics. I think we should attach importance to the study of the past as well as the present, and it is of practical and theoretical significance to make an in-depth study of the history of development of China's socialist economy. China's economic workers, especially the younger generation, will benefit from the study, and readers abroad may also get a better understanding of New China.

The research on the history of China's socialist economy is a new branch of learning, which is still in its initial stage. For many years, however, a systematic work in this field has not been brought out. I am all for writing an economic history and would have written one myself had I the time to do so. Now the *Outline History of China's Socialist Economy* (Chinese edition) has been published by the Heilongjiang People's Publishing House and will,

be translated into English, Japanese and other languages for readers abroad. This is a useful endeavour which will be widely appreciated.

This book is a fairly systematic and comprehensive work on the economic history of New China since its founding 35 years ago, particularly China's economy since 1958, including the periods of the "great leap forward," the readjustment of the economy, the "cultural revolution," and the economic changes up to the present day, with large amounts of historical materials published for the first time ever. The authors of this book have long been working in various economic departments and have devoted their efforts to the study of New China's economic history. On the basis of the large quantities of documents and materials they had collected and sifted they have spent a long time making all-round analyses and deep-going studies and finally brought out this work. Basing their study on historical facts, they have recorded the major events in the various periods and done their best to give a vivid and comprehensive account by probing into the various factors related to economic development and the interrelations between the various departments concerned. They have also initially summed up the experiences and lessons in the different periods in the spirit of seeking truth from facts. Of course, their efforts only represent a step, though a heartening one, taken in the study of the history of China's socialist economy. Some of their views may not be correct, and need to be given further thought and consideration. As objective things are constantly changing and developing, the authors will also gradually deepen their understanding. To probe into the laws of development of China's socialist economy requires the concerted efforts of all research workers.

I hope that after the publication of this *Outline History of China's Socialist Economy*, both Chinese and foreign readers will send in their comments and suggestions to help the authors revise and improve their work as best they can. I also look forward to the publication of more works of this kind in the days ahead.

Xue Muqiao
December 1, 1984

* Xue Muqiao, a noted Chinese economist, is the Director of China's Economic Research Centre.

Part I

Rapid Rehabilitation of the National Economy (1949-52)

1 New Democratic Economy

Section I The Economy in Old China

China is one of the largest countries in the world, with a territory of 9.6 million square kilometres, equivalent to that of the continent of Europe. Its population, which ranks first in the world, accounts for about one-fourth of mankind. On this vast territory are large tracts of fertile land, big and small mountain ranges, and numerous rivers and lakes. The country, which has a long coastline, abounds in natural resources. China is also one of the countries in the world with the earliest civilization, and our ancestors created a splendid culture through hard work.

However, the feudal society which continued for 2,000 years retarded the development of China's economy. In the 17th and 18th centuries when some major European countries had completed the bourgeois revolution and established the capitalist system, which was far more advanced than the feudal society, they began to look for colonies in various parts of the world. China, which had its doors closed to the outside world till then, found them forced open by the imperialist powers after the Opium War in 1840. From then on China was reduced step by step into a semi-colonial and semi-feudal society in which the economy and culture stagnated and the people lived in dire poverty. ✓

Before the People's Republic of China was founded in 1949, the semi-feudal and semi-colonial economy in the old society had the following characteristics:

(1) The imperialists controlled China's financial and economic lifelines.

Through wars of aggression and other methods, the imperialist powers forced the reactionary Chinese governments to sign a series of unequal treaties, by which they forcibly occupied Chinese territory, extorted huge

amounts of indemnities, controlled the trading ports, railways and the customhouses. They also opened banks and set up industrial and commercial enterprises in China. Taking advantage of their political and economic privileges, they gained a tight grip on China's economic lifeline and rapaciously plundered China's rich resources. They turned China into a market for dumping their surplus goods and a base for supplying cheap labour and industrial raw materials.

In 1936, the year before the War of Resistance Against Japan broke out, the total assets of foreign enterprises in China amounted to about US\$4.3 billion, and their industrial capital accounted for 41 percent of the country's total industrial capital at that time. They monopolized 80 percent of the production of pig iron, 56 percent of coal, 76 percent of electricity, 64 percent of cotton piece-goods and 57 percent of cigarettes. In transportation and communications, foreign countries controlled 69.5 percent of the shipping tonnage, and 90 percent of the railway mileage. Foreign banks in China numbered 32, with 141 branches and a total asset of US\$1.9 billion, thereby occupying a monopoly position in China's financial affairs. Foreign loans to the Chinese government had to be guaranteed by customs duties and salt taxes, which were the main sources of the Chinese government's revenue. Thus they actually controlled China's financial power.

In making investments in China, the foreign countries raked in huge profits. Take the United States for example. From 1894 to 1937, its enterprises in China had a total capital of US\$1.5 billion, but they remitted home profits to the tune of US\$2.08 billion; the loans extended to the Chinese government amounted to US\$700 million, but the amount of interest remitted home totalled US\$1.43 billion.

During the War of Resistance Against Japan (1937-45), the Japanese aggressors edged out the United States, Britain and other countries by force, occupied large areas of Chinese territory and gained a monopoly over China's economic interests. They plundered China's resources and looted from China 46.3 million tons of iron ore, 9.57 million tons of pig iron and 346 million tons of coal. In the areas they occupied, most of the important industrial enterprises owned by the national bourgeoisie were either controlled or gobbled up by the Japanese.

After victory over Japan in 1945, U.S. imperialists replaced the Japanese in the Kuomintang-controlled areas, and became the No. 1 plunderers.

Through a number of unequal treaties it signed with the Kuomintang government, the "Sino-US commercial treaty" in particular, U.S. imperialists gained exclusive control of the Chinese market. In 1936 U.S. capital accounted for only 8 percent of foreign investments in China, but the figure jumped to 80 percent in 1948. There were about 300 American enterprises in China, including large power plants, banks with numerous branches in the country and oil companies. More importantly, through investments and loans, the United States kept a tight hold over the large number of bureaucrat-capitalist enterprises and pushed the enterprises of the national bourgeoisie to the brink of bankruptcy. In the name of "aid," the United States dumped large amounts of surplus goods in China. According to statistics from the Customs, commodities imported from the United States in 1947 accounted for 50 percent of China's total imports. Consequently, American goods glutted the Chinese market.

(2) The landlord class which owned the greater proportion of the land in the rural areas ruthlessly exploited and oppressed the peasants.

Imperialist aggression disrupted China's autarkic natural economy, but left the moribund feudal ownership of land untouched. As a result, the landlord class became a pillar of imperialist rule over China.

In old China, landlords and rich peasants, who made up less than 10 percent of the rural population, owned 70-80 percent of the land, while poor peasants, farm labourers, middle peasants and other people who accounted for 90 percent of the rural population owned only 20-30 percent of the land. Landless and land-poor peasants were compelled to till the land they rented from landlords in order to eke out a living. The rent the landlords thus obtained from others' toil generally took up 50 percent, and sometimes 70-80 percent, of the peasants' harvests. In many areas, landlords forced peasants to pay extra rent, rent in advance and earnest money. On top of this, the peasants were burdened with heavy taxes and corvée of one kind or another.

Landlords in China often engaged in commerce and practised usury. They manipulated the rural markets, especially the grain markets. Through their control of prices, they bought cheap and sold dear, thereby bringing in fabulous profits. They exploited peasants by lending them money at exorbitant rates of interest. Prior to 1937, the monthly interest rate of loans in cash was generally about 4 percent, while that of loans in kind was 7-10

percent. After 1945, the rate of interest skyrocketed as a result of the continual devaluation of currency. Exploited by feudal landlords, peasants in the hundreds of millions lived like beasts of burden, and the rural economy was on the brink of bankruptcy.

(3) The bureaucrat-capitalists directly controlled the state's major economic departments.

✓ Fostered by the imperialists, the big bureaucrats represented by the four families of Chiang Kai-shek, T.V. Soong, H.H. Kung and the Chen brothers (Guo-fu and Li-fu), on the strength of the state power and armed forces under their control, levied exorbitant taxes and fleeced the people, thereby gradually amassing a colossal amount of bureaucrat capital. After victory over Japan, by taking over the enterprises and property of the Japanese invaders and the puppet government, plus U.S. "aid" and amalgamation of the capital of the national bourgeoisie, the four families rapidly increased their economic strength and became the biggest monopoly groups in Chinese history. On the eve of liberation in 1949, there were 2,448 banks controlled by the four families' bureaucrat capital, accounting for over two-thirds of the nation's total of 3,489 banks. Moreover, bureaucrat capital made up two-thirds of the nation's total industrial capital and 80 percent of the fixed assets of industry and communications. It also controlled 90 percent of the country's iron and steel output, 33 percent of coal, 67 percent of electricity, 45 percent of cement, all the petroleum and nonferrous metals industries, 40 percent of the nation's spindles, and 60 percent of the looms. In addition, the four families' bureaucrat capital monopolized the nation's railways, highways and air transportation, and controlled 44 percent of the total tonnage of ships in the country as well as a dozen or so monopoly trading companies. Working in collusion with foreign monopoly capital, they oppressed both the workers and peasants and the urban petty bourgeoisie, and encroached on the interests of the national bourgeoisie.

(4) The national capitalists who were economically weak were compelled to attach themselves to the imperialist, feudal and bureaucrat-capitalist economy.

The decadence of the feudal system and the infiltration of foreign capital created conditions for the emergence of national capitalism. During World War I, the imperialist powers which were busy fighting against one another had to fend for themselves. This provided the opportunity for

China's national capitalist enterprises to develop rapidly. In 1936 national capital accounted for 37.8 percent of the total industrial capital in the country. In the semi-colonial and semi-feudal old China, national capital represented a relatively progressive relationship of production and played a positive role in promoting the socialization and modernization of production and the development of the national economy. However, because foreign capital and the country's bureaucrat capital monopolized the economic lifeline and the commodity market and because the feudal forces impeded the development of the national industry, China's national capital was extremely weak and backward: Investments made by national capital were overwhelmingly concentrated in the light and textile industries, and China practically had no heavy industry of its own.

Moreover, because of their limited capital, the enterprises owned by the national bourgeoisie were poorly equipped; their technology was backward and labour productivity was very low. These enterprises could not compete on the market with the enterprises set up with foreign capital or bureaucrat capital and had to depend on them in varying degrees for funds, equipment, raw and semi-finished materials, technology and even in the sales, transportation and storage of goods. This apart, many of the factories, such as those producing spare parts and those repairing machines, were in fact established to suit the needs of foreign and bureaucrat capital. During the War of Resistance Against Japan, these very feeble national industries were either damaged by war or put under the Japanese aggressors' military control, and only a few of them were moved to the interior where they had to struggle for existence. After V-J Day, as a result of the frantic expansion of the four families' bureaucrat capital, and especially because of the runaway inflation, normal production and operation was well-nigh impossible and practically all the national capitalists were involved in speculation. Thus the national industry and commerce gradually dwindled and was reduced to the state of bankruptcy or semi-bankruptcy. Statistics showed that on the eve of liberation there were 123,000 national capitalist industrial enterprises employing 1.64 million workers and having a capital of more than 2 billion yuan (reckoned in Renminbi, the same below), accounting for 22 percent of the total industrial capital at that time, and 130,000 national capitalist commercial enterprises employing 990,000 workers and having a total capital of about 1.4 billion yuan. ✓

(5) The economy was very backward and the labouring people lived in extreme poverty.

The relations of production under imperialism, feudalism and bureaucrat-capitalism seriously hampered the development of China's productive forces. Added to this were years of war. The result was that in 1936 scattered and individual farming and handicrafts accounted for about 90 percent of the national economy, while modern industry accounted for only 10 percent. There were about 3 million industrial workers, or 0.6 percent of China's total population. The highest annual output of major industrial products was as follows: steel, 923,000 tons; coal, 61.88 million tons; electricity, less than 6 billion kwh, most of which were produced in the northeastern provinces under Japan's occupation. The output of the textile industry, which was fairly developed, was also very low. The highest output of cotton cloth was 2.79 billion metres. Even if the imported cotton piece-goods and the peasants' handwoven cloth were added, the average was only a little more than 5 metres for each person a year. The industries developed in a lopsided way, with the light industry making up more than 70 percent and heavy industry less than 30 percent. And in heavy industry, there were only a few departments, the bulk being mines and factories producing primary raw materials. There was no independent machine-building industry to speak of, and only a few factories doing repairs or assembling work existed. The distribution of industries was irrational, concentrated as they were mostly in the northeast and a few coastal big cities. For instance, 90 percent of the power stations were concentrated in northeast China and the coastal cities. The number of cotton spindles and looms in the three cities of Shanghai, Qingdao and Tianjin accounted for about 70 percent of the nation's total and the number of woollen spindles in Shanghai alone made up about 75 percent of the nation's total.

China is known as an agricultural country, but because production remained stagnant over a long period, the output of grain in the peak year was only 138.7 million tons and that of cotton was less than 850,000 tons. These figures dropped dramatically as a result of the successive years of wars. Owing to the low production level and poor transportation facilities, China's coastal cities had to import large quantities of wheat and rice every year. Between 1946 and 1949, half of the cotton for the nation's mills was imported from the capitalist countries.

For a long period there was an unfavourable balance of trade. Statistics showed that between 1926 and 1936, the unfavourable balance came to an average of US\$500 million a year, accounting for more than one-fourth of the total value of imports during this period. After V-J Day, the situation worsened, and the amount of unfavourable balance of trade in 1946 was three times as much as before the war.

State revenue was unable to make ends meet. In the twelve years from July 1937 to May 1949, inflation in areas under the reactionary Kuomintang government reached appalling heights, and prices skyrocketed to astronomical figures.

In those chaotic days when China's backward economy was in a topsy-turvy state, the people led an extremely difficult life. Subjected to harsh exploitation and oppression, the labouring people were bled white. A survey showed that in 1935 the minimum monthly living cost for a Shanghai worker's family of 4 to 5 people was 38.85 yuan, whereas the average monthly wage for an industrial worker, except for the male workers in the shipbuilding industry, was below this level. Moreover, they were constantly under the threat of unemployment. As for the peasants, who were exploited by the feudal landlords and usurers, they lived on the brink of starvation, having nothing to eat but chaff and wild herbs for half the year. Medical and health care and cultural well-being and education for the people were all out of the question. The mortality rate was high, and smallpox, bubonic plague, cholera, schistosomiasis and other infectious diseases were rampant. The number of medical and public health institutions was pitifully low, with only 0.14 bed per thousand people. What was more, medical expenses were so high that the ordinary people could hardly afford to go to a doctor. There were only 2.2 university students and 23.8 middle school students among every 10,000 people, and more than 90 percent of the Chinese people were illiterate.

Section II New Democratic Economic Programme

From their struggle over the past 100 years, the Chinese people gradually came to understand that the root cause of poverty, backwardness in the old China and the oppression and humiliation its people suffered lay in

the imperialist aggression, feudalist exploitation and reactionary rule of the Kuomintang regime.

Numerous people with lofty ideals had groped in the dark for ways to overthrow imperialist and feudal rule and establish a prosperous new China. The failure of the 1911 Revolution led by Dr. Sun Yat-sen showed that the old democratic revolution led by the national bourgeoisie and the road of developing a national capitalist economy were unable to achieve success in China which was then under international imperialist control. Some dogmatist leaders in the Chinese Communist Party, who mechanically applied the experiences of the Soviet October Revolution and attempted to realize socialism at one stroke, also met with failure. This proved that Marxist theory must be integrated with China's actual conditions. Proletarian revolutionaries of the older generation represented by Mao Zedong, learning from the experiences and lessons of the success and failure of the Northern Expedition and the agrarian revolutionary war, gradually grasped the actual conditions of China and finally found the road to socialism. That was the road of new-democratic revolution.

Mao Zedong pointed out that the Chinese revolution included two stages, i.e., the new-democratic and the socialist revolutions, which are different in nature. The former is the necessary preparatory stage for the latter, and the latter is the inevitable sequel to the former. The new-democratic revolution is essentially an anti-imperialist and anti-feudal revolution waged by the people under the leadership of the proletariat, differing from the democratic revolutions of the past led by the bourgeoisie in the European and American countries. After the new-democratic revolution, capitalism will develop to a certain extent, which is inevitable in an economically backward country like China. But what is more important is that, simultaneously with this, the socialist factors which are of decisive importance will also develop. What with the favourable international situation, it is entirely possible for China not to take the capitalist road but to press ahead with the building of socialism.

Following the theory of the new-democratic revolution and under the leadership of the Chinese Communist Party, the Chinese working class relied on its ally, the broad masses of peasants, united with the national bourgeoisie to form a broad united front and used armed revolution to oppose armed

counter-revolution. After 28 years of bloody struggle, it finally overthrew the reactionary rule of imperialism, feudalism and bureaucrat-capitalism.

On October 1, 1949, the People's Republic of China was founded; it proclaimed to the whole world that the Chinese people had stood up. The complete victory of the new-democratic revolution ushered in a new era of development in Chinese history.

From the founding of the People's Republic to 1956, the Chinese Communist Party led the people of all nationalities in the country to carry out in a systematic way the switch from new democracy to socialism.

Mao Zedong pointed out in 1947: "Confiscate the land of the feudal class and turn it over to the peasants. Confiscate monopoly capital, headed by Chiang Kai-shek, T.V. Soong, H.H. Kung and the Chen brothers, and turn it over to the new-democratic state. Protect the industry and commerce of the national bourgeoisie. These are the three major economic policies of the new-democratic revolution."* The liberated areas had already implemented this programme, and on the eve of the founding of New China, land reform had been carried out in areas with an agricultural population of 120 million and a large number of enterprises of bureaucrat capital were confiscated following the liberation and takeover of the cities. Prior to 1949, however, the major task was to carry out armed struggle and seize state power. When the large-scale liberation war was drawing to an end, the Chinese Communist Party and the people of the whole country faced such questions as how to thoroughly destroy the imperialist and feudal economic base and transform the semi-colonial and semi-feudal economy, and how to effect the transition from the new-democratic society to the socialist society and turn China from an agricultural into an industrial country.

At this historical juncture of the revolution, the Chinese Communist Party convened the Second Plenary Session of the Seventh Central Committee in March 1949 at Xibaipo Village, Pingshan County, Hebei Province. The session discussed in detail the relevant economic principles and policies confronting the new government.

The session comprehensively studied China's political and economic

*"The Present Situation and Our Tasks," *Selected Works of Mao Zedong*, Vol. IV, p. 167, first English edition, published in 1961.

conditions and came to the conclusion that after the seizure of state power, it was of paramount importance to continue to fulfil the tasks of the democratic revolution, that is, to abrogate all imperialist privileges in China, refuse to recognize all the treasonable treaties of the Kuomintang period, exercise immediate control over foreign trade by the Central Government, reform the Customs system, thoroughly destroy imperialist domination over China's economy, confiscate bureaucrat capital and turn it over to the people's state, and systematically abolish the feudal land ownership.

This session emphatically pointed out that the old China was a very backward country economically. Taking the country as a whole, the proportions of industry and agriculture in the national economy were like this; modern industry only accounted for about 10 percent, while agriculture and handicraft industry made up 90 percent. This was the economic expression of the semi-colonial and semi-feudal nature of the old society in China, and this was the basic point of departure for considering all problems in the course of the Chinese revolution and for a fairly long period after victory in the revolution. Proceeding from this, China should build a new-democratic economy after the founding of the People's Republic. Specifically, this meant:

Confiscating bureaucrat capital and turning it over to the People's Republic led by the working class. The socialist state-owned economy should control the economic lifeline and become the leading sector of the entire national economy.

For a fairly long time after victory in the revolution, it was still necessary to make the fullest use of the positive factors of the urban and rural private capitalist economy so as to facilitate the development of the national economy. But at the same time it was necessary to adopt an appropriate, flexible policy of restriction on its scope of business and on taxation, market prices and labour conditions in accordance with the specific circumstances of various places, trades and periods and allow it to exist and develop within the orbit of the state economic plan.

For a fairly long period of time, it was not possible to change the scattered and backward individual agricultural and handicraft economy which accounted for 90 percent of the national economy. However, with the abolition of the feudal land ownership and the solution of the peasants' land problem, it was possible and necessary to prudently and actively guide the

individual economy step by step forward to modernization and collectivization. It was necessary to organize the producers, consumers and credit co-operatives which were the collective economic organizations of the labouring people based on private ownership and constituted a form of transition from the individual economy to the socialist economy.

The state-owned economy is socialist in nature and the co-operative economy is semi-socialist; these plus private capitalism, plus the individual economy, plus the state-capitalist economy in which the state and private capitalists work jointly, constituted the new-democratic economic structure. The establishment of this economic system, however, had not solved the question of an independent and integrated industrial system. This question could only be finally solved when the economy was highly developed and when China was turned from a backward agricultural country into an advanced industrial one. Meanwhile, after the fulfilment of the tasks of the democratic revolution, it was necessary to solve the contradiction between the working class and the bourgeoisie at home, while internationally there was still the contradiction between China and the imperialist countries. Such being the case, after the founding of New China, it was imperative to pay attention to the "regulation of capital" at home and exercise control over foreign trade. Only by adhering to these two basic policies in the economic struggle could China gradually shift from new democracy to socialism.

The Second Plenary Session of the Seventh Central Committee also stressed that the rapid rehabilitation and development of production was the focus of all work. It pointed out that the period of "from the city to the village" and of the city leading the village had begun. The focus of the party's work had shifted from the countryside to the city. From the day we took over the cities, we must first of all pay great attention to the rehabilitation and development of production. Only thus could a consumer city be transformed into a production city and only in this way could the people's state power be consolidated.

The basic principles and policies laid down at the Second Plenary Session of the Seventh Central Committee were formally included in the Common Programme of the Chinese People's Political Consultative Conference in September 1949, and have since become the principles followed by all the Chinese people as well as their goals of struggle. This effectively guaranteed the restoration and development of China's national

economy and the successful realization of the socialist transformation of the means of production.

II The Struggle to Stabilize the Market

Section I The Economic Difficulties Facing New China

Under the leadership of their own political power, the Chinese people established the new-democratic economic system throughout the country in 1949 and began rehabilitating the national economy which lasted a little more than three years.

The economy left behind by the Kuomintang regime was in an awful mess. Twelve consecutive years of war inflicted tremendous destruction on the industrial and agricultural production as well as communications and transportation. The number of draught animals in 1949 dropped 17 percent as compared with 1936, and major farm tools and fertilizer were reduced by 30 percent. Because the river dykes had fallen into disrepair over the years, flood and drought often hit many parts of the country. The equipment in the factories and mines was either destroyed or moved away, and what was left through the workers' struggle to protect their factories and mines was for the most part in a dilapidated condition. Some 10,000 kilometres of railways, more than 3,200 bridges (with a total length of 155 kilometres) and more than 200 tunnels (with a total length of more than 40 kilometres) were seriously destroyed. Almost none of the trunk railway lines — the Tianjin-Pukou, Beijing-Hankou, Guangzhou-Hankou, Longhai, and Zhejiang-Jiangxi railway lines — were open to uninterrupted traffic. One-third of the locomotives were damaged and out of commission. The total mileage of highways open to traffic by the end of 1949 was less than 80 percent though rush repairs were carried out on 26,284 kilometres of them. As for sea transport, all the ships in north China were seized and taken away by the

fleeing Kuomintang troops, and the ships left behind in Shanghai that could be put to use had only a carrying capacity of 145,000 tons. Moreover, Chiang Kai-shek and his gang blockaded and harassed the ports along the coast. With regard to air transport, all the planes and equipment of civil aviation were taken by the Kuomintang to Hongkong, and even the pilots were forced to leave along with the fleeing troops.

Compared with the peak year before 1937, the output value of agriculture in 1949 dropped by more than 20 percent, with grain output down 22.1 percent, from 138.7 million tons to 108.1 million tons; cotton output down 48 percent, from 849,000 tons to 444,500 tons; and the number of pigs dropped 26.1 percent, from 78.53 million to 57.75 million head. Industrial output value plummeted 50 percent, with heavy industrial production down by 70 percent and light industrial production by 30 percent. The output of coal fell from 61.88 million tons to 32.43 million tons, down 47.6 percent; steel output fell from 920,000 tons to 150,000 tons, down 62.6 percent; cotton yarn from 2.45 million bales to 1.8 million bales (one bale equals 181.6 kilogrammes), down 26 percent. The total volume of goods shipped by modern means of transportation was only 22.96 billion ton-kilometres, equivalent to only 42.7 percent of the amount in the pre-war record year.

Prolonged years of war and disrupted transportation brought exchanges between the rural and urban areas to a standstill, resulting in a serious shortage of commodities in the cities. For example, when the People's Government took over Shanghai in May 1949, rice and coal were in short supply, and the privately owned cotton mills had barely enough cotton in stock for one month. More serious was the emergence of a large number of profiteers and speculators as a result of the prolonged inflation under the Kuomintang rule. Private banks engaged in speculation also mushroomed. In Shanghai, there were at that time more than 200,000 speculators. In the 200 banks in Beijing and Tianjin, 96 percent of their funds were used for direct or indirect speculation. In Shanghai the amount of money deposited in and lent by the underground banks that was illegally used for usury generally accounted for more than 30 percent of the capital of privately owned banks, and this percentage increased three or four times when the prices skyrocketed, the money market became tight and the interest rates soared. Not to be outdone, many honest industrialists and businessmen also devoted

most of their energy and funds to hoarding and speculation in order to grab high profits. As a result, the entire market was dominated by speculators. In some coastal cities like Shanghai and Guangzhou, trade in gold, silver and foreign currencies was rife.

The people had a very difficult time in the postwar period. In the old liberated areas which had undergone repeated enemy attacks, the people had to shoulder the heavy burden of supporting the front, and in the newly liberated areas the people had over the years lived in deep misery under the reactionary Kuomintang rule. When the Kuomintang troops retreated in defeat, they plundered the people. In 1949, there was a big flood which inundated 8 million hectares of farmland, of which 12,000 hectares were seriously hit, and there were 40 million displaced people, of whom about 7 million were in urgent need of relief. In the cities throughout the country, about 4 million workers, handicraftsmen and intellectuals were unemployed, and many other workers were only partially employed.

Feeble and hard-up as the economy was, the new-born political power had to cover huge military spendings and other expenditures. The reason for this was manifold. The War of Liberation was still going on, and efforts had to be made to help settle down millions of Kuomintang military and civilian personnel. Communication and transportation facilities needed to be repaired, and displaced people from the stricken areas and the unemployed needed relief. All these brought the 1949 financial expenditures to an equivalent of 57.6 billion *jin* of millet*. Financial revenue that year, however, could hardly be increased because of the economic difficulty brought about by the Kuomintang rule, and more time was needed to readjust the taxation system in the newly liberated areas. After efforts were made, the revenue was equivalent to only 30.3 billion *jin* of millet, a little more than half the amount of expenditures. So, the remaining amount had to be offset by way of issuing paper currency.

With the steady expansion of the newly liberated areas resulting from the victories in the War of Liberation, the population increased and the need for Renminbi became greater and greater. However, owing to the

*Because prices were unstable during the early days of New China, financial revenue and wages were calculated in terms of millet. In December 1949 the price of millet was between 0.12 and 0.14 yuan per kilogramme.

harassment by the despots and landlords in the villages and the bandits left behind by the Kuomintang, the circulation of Renminbi in the newly liberated areas met with difficulty for a time. Trade in silver dollars or in kind was widespread. At the same time, many purchasing agents flocked from all over the country to such big cities as Tianjin which had to supply goods for various parts of the land after liberation. The upshot was that large amounts of Renminbi were concentrated in a few big and medium-sized cities, making the already serious inflation all the more serious.

At that time, speculative capital, taking advantage of the country's financial and economic difficulties and the serious shortage of goods in the cities, hoarded the most needed and essential commodities like grain, cotton yarn and cloth in an attempt to push up the prices and rake in super-profits. In January, April, July and November 1949, they stirred up four big price hikes, with the result that the prices which had been rising slowly skyrocketed overnight.

In April 1949, speculators in Beijing and Tianjin took advantage of the spring drought in north China to boost the grain prices. The impact soon spread to central China, Shandong Province and northern Jiangsu Province. In July, taking advantage of the Kuomintang remnants' blockade and sabotage of New China and the losses caused by floods and typhoon in some areas, speculators in Shanghai manipulated the market by first raising the price of rice and then the price of cotton cloth, which generated an overall hike that affected north and central China. In October, unscrupulous merchants in Beijing spread the rumour that there was a serious shortage in the supply of grain, thereby stirring up an overall hike by first raising the grain prices. They were followed by speculators in Shanghai who pushed up the prices of cloth and hardware and aggravated the situation. At that time, because of the restoration of telecommunications in the daily expanding liberated areas, capitalists in the various places could easily co-ordinate their actions to create an overall hike throughout the country, which lasted as long as 40 days. While driving the prices up, the capitalists manipulated the gold, silver and foreign exchange market in their frenzied monetary speculation. Soon after Shanghai was liberated, the capitalists, with the stock exchange as their headquarters, kept in constant contact with their agents throughout the city by using thousands of telephones and hot lines. They also made use of dealers in silver dollars to stoke the fire of speculation. The

upshot of their rabid activities was that the price of silver dollars in the city almost trebled in ten days and the prices of commodities increased 3.7-fold in 13 days.

The prices of commodities increased by a big margin in 1949. Taking the wholesale price index of 13 big cities in December 1948 as 100, it rose to 153 in January the following year, and jumped to 287 in April, 1,059 in July and 5,376 in November. This sharp rise in prices not only undermined production and the national economy as a whole but also posed a threat to the people's livelihood and aggravated the country's financial and economic difficulties.

Gloating over China's difficulties, leaders of some foreign countries and the Kuomintang asserted that these financial and economic difficulties were insurmountable. And a number of capitalists held that "the Chinese Communist Party is skilled in military and political affairs but incompetent in economic affairs." Under the leadership of the Party and the People's Government, however, the Chinese people took up the historical task of overcoming the economic difficulties and began rehabilitating the national economy.

Section II Confiscation of Bureaucrat Capital and Control of Economic Lifeline

✓ To restore China's economy, it was necessary, first and foremost, to abolish the imperialist privileges and confiscate bureaucrat capital in China.

The abolition of imperialist privileges meant in the main abolishing all the unequal treaties the imperialist countries had imposed upon China, taking over the Customs which had long been in the grip of foreign countries, exercising control over foreign trade and foreign exchange and abrogating all the privileges by which foreign countries obtained super-profits through the exchange of unequal values in imports and exports and preferential Customs duties.

The confiscation of bureaucrat capital meant in the main confiscating all the enterprises under the Kuomintang central government, provincial governments, county and municipal governments (including all the Japanese, German and Italian enterprises in China taken over by the Kuomintang after the conclusion of the War of Resistance Against Japan),

and confiscating all the enterprises operated by the top Kuomintang bureaucrats, including factories, mines, commercial undertakings, banks, warehouses, ships, wharves, railways, post and telegraph offices, electricity and telephone departments, water works, as well as farms and pastures. But industrial and commercial enterprises run by petty Kuomintang officials and landlords and shares held by national capitalists in the bureaucrat-capitalist enterprises were not confiscated.

These two important tasks were accomplished nationwide by the people's political power in taking over the cities after victory was won in the revolution.

The people's political power began confiscating bureaucrat capital as early as in 1946 when Harbin was liberated. In 1948 and early 1949, after the victorious conclusion of the Liaosi-Shenyang, Peiping-Tianjin and Huai-Hai campaigns, the people's political power took over all the enterprises of bureaucrat capital north of the Changjiang (Yangtze) River. From April 1949, when the People's Liberation Army crossed the Changjiang River in pursuit of the Kuomintang army, to the end of the year, Shanghai, Wuhan, Chongqing, Guangzhou and other cities returned one after another to the embrace of the people, and all the bureaucrat-capitalist enterprises on the mainland, with the exception of those in Taiwan, were taken over by the People's Government.

Among the bureaucrat-capitalist enterprises confiscated were:

In the financial sector: the four big families-controlled Central Bank of China, Bank of China, Bank of Communications, Bank of Agriculture, the Central Trust, Postal Savings and Remittance Administration, the Co-operative Treasury, as well as over 2,400 local Kuomintang banks at the provincial and municipal levels. Shares held by Kuomintang officials in the banks jointly operated by Kuomintang officials and businessmen were also confiscated. Employees working at the Bank of China's overseas offices rose against the Kuomintang and crossed over to accept the leadership of the People's Government.

In the industrial and mining sector: the Resources Commission of the Kuomintang government which had under its control the nation's resources and heavy industry, the China Textile Construction Corporation which monopolized the nation's textile industry, all the enterprises affiliated to the Kuomintang ordnance department and logistics department, all the

enterprises under the Kuomintang government's ministries in charge of communications, grain and others, all the enterprises of the Soong and Kung families and other bureaucrats, all the enterprises under the Kuomintang's CC clique, and all the enterprises operated by the bureaucrat capital of various provinces. All told, the People's Government took over 2,858 industrial enterprises with 4.29 million workers and staff members. Among these there were 138 power stations, 120 coal mining and oil extracting enterprises, 15 iron and manganese mines, 83 nonferrous mines, 19 steel plants, 505 metal processing factories, 107 chemicals processing factories, 48 paper mills, 241 textile mills and 844 foodstuff factories.

In the field of communications and transportation: all the communications and transportation enterprises affiliated to the Kuomintang government's Ministry of Communications and the China Commercial Shipping Corporation. Altogether, the People's Government took over more than 20,000 kilometres of railways, over 4,000 locomotives, 4,000 passenger cars, 47,000 freight cars, about 30 rolling stock plants and shipyards as well as various kinds of ships totalling more than 200,000 tons. The 12 airplanes of the China and Central Airlines, which Chiang Kai-shek and his gang took to Hongkong, returned to the embrace of the motherland on November 9, 1949 after their crew and other staff members rose in an uprising against the Kuomintang.

In the commercial sector: over a dozen monopoly trade companies including the Fuxing, the Fuhua, the China Tea, the China Oil, the China Salt, the China Silk, the China Vegetable Oil, the Fuzhong, the China Import and Export, the Jinshan, the Litai, the Yangtze Construction, and the Sino-US Yangtze Industrial Companies.

The taking over of the cities and the confiscation of bureaucrat-capitalist enterprises were immediately followed by the abolition of all the privileges of foreign countries in China. The People's Government took over all the Customhouses at the trading ports (including all those along the Changjiang River and in the interior provinces). The People's Government exercised control over foreign trade in these cities and empowered the People's Bank of China to exercise unified control over foreign exchange.

The confiscation of bureaucrat-capitalist enterprises was carried out when the War of Liberation had not come to an end and public order had yet to be stabilized. When the Kuomintang government beat a hasty retreat, it

not only tried to take away as much movable property as possible, but also attempted to dismantle and destroy all the industrial and mining enterprises, blow up the equipment, burn the reference materials to ashes and disband all the employees. Some people in the People's Liberation Army, influenced by the habit of guerrilla warfare, failed to realize the need to take effective measures to protect those enterprises and other property which now belonged to the people. This was why undesired confusion and disorder occurred in 1947 and early 1948.

In order to take over all the bureaucrat-capitalist enterprises with as little damage as possible and restore production rapidly, the People's Government, after summing up the experiences gained, paid due attention to the following:

(1) Mobilizing the masses through the organization of the Chinese Communist Party and the New Democratic Youth League to participate in the struggle to protect the factories, mines, railways and navigation facilities and prevent them from being dismantled, moved away or destroyed, and to smash the enemy's sabotage activities. As regards the engineers, technicians, managerial personnel and most of the high Kuomintang officials, patient and careful work was carried out to persuade them to stay at their posts awaiting liberation.

(2) Exercising strict discipline in the work of taking over these enterprises. Efforts were made to strengthen education in the army units and government offices and among the people, stressing that the take-over was to be conducted under the unified leadership and command of the military control committees. The method was to "take over the enterprises according to the different trades, from the highest organizations down to the grass-roots, keep everything intact, first take over, then classify them and transfer them to the care of departments concerned." Orders were issued strictly forbidding anyone to move or take away anything and to destroy or disperse the materials and other property.

(3) The original organizational structure of the enterprises was not "broken up," but the policy of "keeping the former employees at their original posts with the same pay under the same working systems" was implemented. That is to say, former factory and mine directors, engineers and other employees who were willing to continue working at their posts could stay so long as they did not take part in sabotage activities. The

organizational and working systems in the enterprises were kept and were not changed or abolished at random. The old wage scales and grades, the bonus system which had been followed for many years, and the labour insurance system were not abolished or changed.

The military representatives in taking over the enterprises did not take a direct part in the management; their main task was to supervise all the activities of the enterprises, to acquaint themselves with the situation and to arouse the people so as to ensure that orders from the higher authorities would be carried out and production would be restored quickly.

All these clearly showed that the People's Government adopted different policies in dealing with the economic organizations of bureaucrat capital and the Kuomintang political setups. In dealing with the latter, the policy was to smash them, while with regard to the former, the policy was not to break them up but to change their relations of production, safeguard and develop the productive forces. It was precisely because of this correct policy that the People's Government took over several thousand enterprises in a smooth way and quickly repaired the damaged machines and equipment and restored production. For instance, from the end of 1948 when the whole northeast China was liberated to April the following year, 191 enterprises resumed production. The figure increased to 243 in September and to 307 in December. The Anshan Iron and Steel Company and the Benxi Coal and Iron Company, both seriously damaged, resumed production ahead of schedule. The 36 factories and three power plants the People's Government took over in Tianjin resumed production and attained their former level in five months; some of them even surpassed their former level of production under Kuomintang rule.

The confiscation of bureaucrat-capitalist enterprises and the restoration of production ensured the direct control of the country's economic lifeline by the state-owned economy. The take-over of the Customhouses ensured that the key to China's gateway was in the hands of the People's Government. Thus, after the founding of New China, the People's Government basically cleared away the economic base of the foreign countries and the Kuomintang regime in the urban areas, expropriated the most reactionary, the most concentrated and the most powerful part of the Chinese bourgeoisie, started the socialist transformation of the capitalist ownership of the means of production, and liberated the productive forces.

Thus the People's Government laid the important material foundation for restructuring and rehabilitating the national economy as a whole.

Section III Trial of Strength With Speculative Capital on the Market

Following the liberation of big cities, the People's Government began in 1949 to take over enterprises run with bureaucrat capital. At the same time, it made use of the material foundation of the state-owned economy to strike back at speculative capital and to solve the problem of soaring prices which had a vital bearing on the national economy at that time.

With a view to averting the serious difficulties and losses caused by the violent price fluctuations to the state and the people, the People's Government adopted the following tactics. On the one hand, it took active steps to develop the supply and marketing co-operatives and consumers' co-operatives so as to distribute the necessary consumer goods directly to the people through them, thereby avoiding exploitation by middlemen and speculators; at the same time it encouraged *qieshi* bank deposits (deposits based on the price indices of certain commodities). In this way, the people were guaranteed a basic livelihood. On the other hand, the People's Government used the strength of its political power to launch an attack on speculative capital.

The primary task was to exercise control over finance and crack down on speculation in gold, silver and foreign currencies. In November 1948, the North China Bank, the Beihai Bank and the Northwestern Peasants' Bank in the liberated areas south of the Great Wall were amalgamated into the People's Bank of China, which issued Renminbi on December 1 that year as the unified currency for circulation south of the Great Wall. As soon as a city was liberated, the People's Government immediately ordered that the Kuomintang's Jinyuanquan (gold yuan coupons) should be changed into Renminbi within a certain date so as to let the latter take over the market as soon as possible. However, as the "legal tender" and Jinyuanquan issued by the Kuomintang government had already devalued to an alarming degree, the silver dollars had actually become the means of circulation. In southern

China, Hongkong dollars and other currencies were in wide circulation. Owing to the unsteady prices in the early post-liberation days and the rumours spread by the enemies, the use of silver dollars and foreign currencies in exchange was still common for a time. This affected the circulation of Renminbi and the exchange of commodities between the cities and countryside. And speculation in gold, silver and foreign currencies led to the constant fluctuations of prices on the market.

To solve this question, the People's Government promulgated the regulations on the control of gold, silver and foreign currencies in north, east, central and south China in April, June and August 1949 respectively, which prohibited the free circulation of gold, silver and foreign currencies and authorized the People's Bank of China to exchange them for Renminbi. At the same time, the government mobilized the people to launch an attack on speculation in gold, silver dollars and greenbacks. In Shanghai, the people staged a large-scale demonstration and a propaganda campaign against speculation in silver dollars in order to safeguard the people's livelihood was launched. The headquarters of financial speculation — the Stock Exchange Building — was closed down and 230 chief culprits engaged in undermining the finance were arrested. In Wuhan, pickets were organized, and more than 200 major culprits in silver dollar speculation were arrested and two large private banks were closed down. In Guangzhou, 87 underground banks engaged in speculation and 377 stores operated by money changers were banned, and the circulation of Hongkong dollars was forbidden. Besides, control over private financial establishments was strengthened. Underground banks engaged in usury were resolutely suppressed; as for those ordinary private banks, they were prohibited to engage in speculative activities and guidance was given them to invest their capital in productive work. Thus, speculation in gold and silver was initially curbed, and the business activities of private banks were gradually brought under the control of the state bank.

While work over financial affairs was being strengthened, control over the market was tightened. Universal registration of industrial and commercial enterprises was enforced and no one was allowed to do business without permission. Market exchange was placed under strict control. Trade centres were established for the exchange of major goods. Administrative power was used to oversee market prices so as to prevent private

businessmen from undermining them. The government supervised all the buying of widely used commodities and equipment to avoid buying sprees. Speculation was banned and speculators were dealt with according to law in the light of the seriousness of each case, while law-abiding privately owned industrial and commercial enterprises were protected. All these administrative measures helped stabilize the prices and curb speculation.

However, the economic situation of soaring prices stemmed from the imbalance between the amount of currency and commodities in circulation. Speculative activities could not be effectively checked merely by administrative means. At that time when the financial deficits could not be immediately reduced, the main economic measure adopted by the People's Government was to rely on the state trading departments to control the major commodities and hit at speculative capital by bulk selling of the products in short supply at certain periods.

In August 1949, the central authorities convened in Shanghai a meeting on financial and economic work, which was a very important meeting for the overall planning and arrangement of financial and economic affairs in the whole country. The meeting discussed the questions of financial revenue and expenditure, the issuance of currency and the prices of commodities, and decided on the policies to give all-out support to the liberation so as to enable it to win complete victory and to help maintain the people's livelihood in the newly liberated areas, particularly in the big cities. It also adopted measures on unifying the country's finance and controlling the market. The meeting also decided to issue government bonds and improve taxation as deflationary measures. It also decided to strengthen the work of collecting the grain tax and set up national specialized companies in charge of domestic and foreign trade, such as the cereals corporation, and the cotton, cotton yarn and cloth corporation. The aim was to unify the control and allocation of these goods to enhance the government's capability in its struggles on the market.

Chen Yun, then chairman of the Financial and Economic Commission under the Government Administration Council of the Central People's Government, pointed out at the meeting that enough grain and cotton in the hands of the central government was the major means to stabilize the market and control the prices: there should be enough grain for the cities and enough cotton cloth for the countryside so as to keep the situation stabilized

and to prevent the capitalists from taking any opportunity to stir up troubles. In stabilizing the market and prices, the emphasis was placed on the big cities, Shanghai in particular, because these cities were the strongholds of the capitalists and the dens of speculators.

In 1949, energetic efforts were made to restore the production of state-owned factories and strengthen the work of collecting agricultural tax in kind and buying cotton yarn and cloth and other commodities. As a result, state-owned commercial departments gained control of 70 percent of the supply of coal, 30 percent of cotton yarn, 50 percent of cloth, 66 percent of salt and one-third of marketable grain. In accordance with the plan mapped out at the afore-mentioned meeting on financial and economic work, a tit-for-tat struggle against speculative capital was launched after August 1949, the main battlefield being in Shanghai.

At that time, the government bonds had not yet been issued, military expenditures kept rising, and the state-owned trading companies had to spend large amounts of money to purchase agricultural and sideline products as the autumn harvest was being gathered. The upshot was that by the end of October that year, the amount of money in circulation was four times that at the end of July. Although the circulation scope of Renminbi was twice as large during the same period, the swift increase in the amount of paper money in circulation was bound to make a big impact on the market and provide opportunities for speculative capital.

Towards the end of October, commodity prices zoomed. The prices of grain, cotton yarn, hardware and chemicals in Shanghai went up by the big margin of 20-30 percent a day. Although the trading companies sold these commodities in large quantities, the prices continued to rise and the situation began to affect other big cities.

Starting from November 1, the Financial and Economic Commission under the Government Administration Council of the Central People's Government (called the Central Financial and Economic Commission hereafter), while planning for short-term deflation and the reduction or postponement of expenditures which could be deferred for the time being, began to have large quantities of grain and cotton yarn sent from all over the country so that it could use them to the best advantage.

On November 13, considering that the price hikes had surpassed the rate of increase in the issuance of currency which meant that the conditions

to stabilize commodity were ripe, the Central Financial and Economic Commission made careful arrangements to launch an all-out battle to this end. According to this plan, the bank immediately suspended extending all loans, except for those with special permission, and began recalling all the money that was due. The financial and economic commissions in various localities suspended granting all the funds for purchases and for investments in the factories and mines, except for those with special permission. All the payments of local expenses which could be postponed were without exception deferred for 15 to 20 days, so as to further reduce the amount of money in circulation. All the local trading companies were ordered to immediately suspend the selling of major goods. Grain was shipped in from the northeast to areas south of the Great Wall, and cotton yarn and cloth were transported to Shanghai, Beijing, Tianjin, Hankou and Xian so as to have enough commodities in hand in preparation for the battle against speculation.

On November 20, all the big cities began to act in unison. The trading companies first raised the state prices gradually to the level of those on the black market. Statistics showed that by November 24 the prices of commodities in Shanghai, Hankou, Tianjin and Xian had jumped to 3.7 times the prices at the end of July. Then, beginning on November 25 when the prices were high, all the trading companies began selling large quantities of commodities at the same time. Simultaneously with this, the government pressed for the payment of taxes to further reduce the money in circulation. As a result, prices began to drop the next day. Selling by the trading companies for ten days in succession caused the prices to plummet 30-40 percent, equivalent to a little more than two times the prices at the end of July (later, the prices were readjusted to 3.2 times those in July). The capitalist-speculators calculated that Renminbi would be just like the Kuomintang's Jinyuanquan (gold yuan coupons) which, once devalued, would never be able to regain its value again and that the speed of price hikes would surely surpass the rise in interest rates. With this idea in mind, they borrowed money to stockpile all kinds of commodities when the prices soared in an attempt to make big profits. Factory owners also preferred to borrow money to cover all expenses instead of selling their goods. The interest rate at that time was so high that for every yuan borrowed, one had to pay two yuan in interest every month. So when the prices came down,

they were in a hurry to sell their goods to repay their debts. But, the more they sold, the lower the prices dropped, and the harder it became for them to sell the goods they had hoarded. So they had to borrow more money to repay their old debts. Therefore, despite the drop in prices, the money market was still tight and the interest rate remained high. Many of the factory owners could not get enough operational capital, and some even went bankrupt.

On the other hand, the state owned trading companies took this opportunity to buy in large quantities of commodities in preparation for further price readjustments. In the meantime, the People's Bank granted small amounts of loans to help some private industrialists and businessmen to tide over their difficulties. Capitalists in Shanghai were shocked to see that the People's Government succeeded in keeping prices steady without using political power. This trial of strength taught them a lesson.

The price rise in November 1949 was the biggest since the founding of the People's Republic. It lasted the longest and speculative capital literally went on the rampage unrestrained. Through this duel on the market, speculative capital received a destructive blow, and the state-owned trading companies gained the initiative on the market through planned buying and selling.

Section IV Victory in Unifying Financial and Economic Work and in Stabilizing Prices

Victory over speculative capital resulted in the stabilization of prices for a period of time. This stabilization, however, was not based on the balance of financial revenue and expenditure or on the balance between supply and demand on the market. Financial deficit went up month by month due to the monthly increase in military expenditures. This was inevitably followed by price fluctuations.

From November 1949 to mid-January 1950, prices again went up by 30 percent. After the February 6 bombing of Shanghai by the Kuomintang air force, the local people became uneasy about the political situation, and speculative capital took the opportunity to fan up another price hike all over the country. In 15 big and medium-sized cities, the wholesale price indices of

25 kinds of commodities doubled by the end of February as compared with January.

To make up part of the financial deficits, the Central People's Government Council decided at its fourth session on December 2, 1949 to issue 100 million *fen* of *zheshi* government bonds in January the next year. (*Zheshi* bonds meant bonds reckoned in terms of certain commodities, with *fen* as a unit. Each *fen* consisted of 3 kg of rice, 0.75 kg of flour, 1.33 metres of white cotton cloth and 8 kg of coal.) In March 1950, the Government Administration Council of the Central People's Government made public the "Decision on Unifying State Financial and Economic Work" (see Appendix) which aimed at unifying financial and economic work and readjusting revenue and expenditure so as to strive for an approximate balance between revenue and expenditure and the overall stabilization of prices.

During the 12 years from the outbreak of the anti-Japanese war in 1937 to 1949, the financial and economic affairs in the various liberated areas were managed separately under a unified policy. Each had its own currency and took care of its own revenue and expenditure. Only in the last two years was it possible to send a small amount of military supplies and commodities from one liberated area to another. This kind of entirely separate management suited the conditions at that time when the liberated areas were isolated from one another. But, in order to meet the needs of the new situation when the entire Chinese mainland except Tibet had been liberated in 1949, the scope and degree of unifying financial and economic work should be increased accordingly. First of all, finance, the railways, post and telecommunications and foreign trade were gradually placed under unified management. However, at the time when the liberated areas were quickly being expanded, financial and economic work as a whole was still separately managed, and there was no unified method of management for financial revenue, though expenditure was under unified control. For example, the main financial expenditures at that time, such as military spendings, investments in economic construction and relief funds, were borne entirely by the central authorities, while the main incomes such as agricultural tax in kind and other taxes were retained by the provincial, city and county governments. And when the local governments had difficulties in making both ends meet, they asked the central authorities for subsidies. This increased the deficits of the central government.

Following the basic victory of the Liberation War, large-scale military operations had come to an end, a unified currency was in use south of the Great Wall and remittances, communications and transportation were open in all parts of the country. It was then possible to unify financial and economic work, put an end to waste and strive for an approximate balance between revenue and expenditure.

As early as in the winter of 1949, the Party Central Committee laid down the policy of exercising unified management over the state's financial and economic affairs. At that time, however, some localities did not want unified management since they considered that "so long as we do our work well here, it will benefit the country as a whole." Other localities, while accepting unified management, asked for more leeway and wished to retain a certain proportion of grain and money in their hands so as to enhance the initiative of the localities. In view of this, the central authorities did patient work to persuade them to take the overall situation into consideration.

At the meeting on the question of supplies in the cities held in December 1949, Chen Yun pointed out that commodities in the country were far from sufficient. Yet such a situation required greater concentration of commodities in the highest headquarters rather than scattered in the various localities. Later on, he pointed out further that the enforcement of unified management over finance, taxation, delivery of agricultural tax, trade and other main economic branches in the newly liberated areas meant a big step forward in our work, although it would no doubt meet with many difficulties. The central authorities depended mainly on issuing currency to defray its expenses, while all the agricultural tax in kind and other taxes were in the hands of the provinces, cities and counties, and the central government had no idea when these taxes were collected and how much they were. But the selling of agricultural tax in kind and the taxes in cash were thenceforth the major means for withdrawing currency from circulation by the month or by the quarter. In these circumstances, if a basically unified management was not enforced, there would be greater difficulties which would cause greater damage to the state. Therefore, it was imperative to overcome whatever small difficulties that might crop up in the course of unifying the management so as to avoid greater difficulties such as confusion in the pricing system resulting from separate management.

On the basis of a gradual attainment of ideological unanimity, the

Central People's Government convened in February 1950 a national meeting on financial and economic work. Four major questions — unified management of financial and economic work, reducing government staff, cash control and balance between supply and demand of commodities — were discussed and concrete measures were adopted. The meeting paved the way for the unified management of the country's financial and economic work which mainly fell into the following categories:

(1) Unifying the revenue and expenditure throughout the country.

The emphasis was on unifying revenue. With regard to agricultural tax in grain, which was the main income of the state, apart from 5-15 percent added by the localities concerned, this tax should be collected according to the regulations and rate prescribed by the central authorities and should be handed to the central granary. With regard to taxes, apart from the local taxes approved by the central government, all the income from the customs duties, salt tax, commodity tax, and industrial and commercial tax should be settled day by day and turned over to the state treasury. State-owned enterprises should hand in their taxes on time, and their profits and part of the depreciation fund should be handed over to the central or local treasury according to the department to which they belonged. The above-mentioned revenues must not be used without orders from the Ministry of Finance. After taking stock, all the commodities in the warehouses should be placed under the unified control of the Central Financial and Economic Commission for allocation and use.

As to the expenditure, the work included unifying the size of the government bodies at various levels and the pay scales, streamlining the government organs to eliminate over-staffing, and putting an end to fraudulence in applying for and receiving funds or materials. The excess personnel after the streamlining were to be transferred to other work by the National Committee in Charge of Determining the Size of Government Bodies, and no government office could employ new members without approval by the authorities concerned. All the expenses of administrative undertakings and funds for economic construction should be used frugally and arranged in the order of their importance and urgency. The aim of all this was to concentrate all possible funds for the military purpose of wiping out the remnant enemy troops and for restoring key economic projects. A budget should be drawn up and appropriations for each budget item should have formal approval.

(2) Unifying trade.

The funds, business plans and allocation of goods in state-owned trading companies all over the country were to be placed under the unified control of the Ministry of Commerce, and no interference by the localities was allowed. Army units and government organizations were not allowed to engage in trade. All this was aimed at concentrating the limited amount of materials for use in places where they were most needed, regulating supply and demand at home in a planned way, withdrawing money in circulation from the market, keeping the prices steady and organizing foreign trade.

(3) Unifying cash management.

The People's Bank was designated as the organization in overall charge of the allocation of cash in the country. The quotation rates and allocation of foreign exchange were also under its unified management. Apart from that for immediate use, all the cash of the army units, government organizations and state-owned enterprises must be deposited in the state bank and not in the private banks. Money transactions between government offices and enterprises were to use cheques good only for this purpose issued by the People's Bank. Plans for balance between cash income and expenses should be drawn up regularly so as to practise economy in the use of cash and regulate cash turnover in a planned way.

The whole country earnestly implemented these policies of the central authorities and strictly abided by the above-mentioned decisions. All the personnel in the army units, government organizations, public utilities establishments, factories and schools continued to live a plain life, and all conscientiously handed in the agricultural tax in kind and other taxes or bought government bonds. Thus great successes were quickly achieved in unifying financial and economic work.

(1) Initial success in unifying financial revenue and expenditure ensured the military expenses and the needs for restoring the key economic projects.

Except for the additional taxes levied by the localities and the expenses for the primary schools in the cities and countryside and the normal schools in the counties, all the revenues and expenditures were under the unified management of the central authorities according to the budgets. Figures on the main tax incomes of the major cities were reported every other day and those of the smaller cities, villages and small customs offices or salterns were

reported every ten days. During the period when public grain was delivered, reports on the amount of grain handed in and stored were made every ten days. Thus, on the basis of the treasury's daily income and reports, the Ministry of Finance could make the necessary appropriations. At a time when the country still had economic difficulties and financial deficits and there were only a limited amount of funds in reserve for extraordinary use, planned allocations by the central authorities made it possible for the state to use these funds according to the importance and necessity of each case and with due consideration for the situation of the country as a whole. Thus, though the funds in reserve were limited, they were used reasonably to achieve big results.

The primary task was to concentrate all possible means to support the frontline. By July 1950, 65.6 percent of the annual budget for military expenditures had been allocated, which ensured the victory in liberating Hainan Island and the Zhoushan Archipelago. Secondly, 1.04 billion yuan were appropriated to restore the operation of major water conservancy projects, railways, iron and steel plants, and other heavy industries.

(2) The transportation and allocation of commodities and other materials, grain in particular, was successfully carried out through unified command

In 1949, many places in northern Anhui, northern Jiangsu, Shandong, Hebei and Pingyuan* Provinces, which were hit first by serious drought and then by excessive rainfall, badly needed relief. Besides, big cities like Shanghai often asked for emergency help in the supply of grain. Estimates at that time showed that the shortage of grain in both east and north China ran to 1.5 million tons in 1950. The Ministry of Commerce shipped large amounts of grain from northeast, central-south and southwest China to Shanghai, and to the severely stricken areas in north China and the northern part of Anhui Province. By July, 2.25 million tons of grain were transported to the big cities and disaster areas. In the old days, big coastal cities like Shanghai, Tianjin and Guangzhou often relied on imported grain. Beginning from 1950, they got their grain supply basically from the hinterland. The Ministry of Commerce also shipped coal from north China

*Pingyuan Province was cancelled during the change in the administrative division of the country in 1952 to become part of the present-day Henan and Shandong Provinces.

to Shanghai, Guangzhou and cities along the Longhai Railway line, salt from north and east China to central-south China, and cotton yarn and cloth from Shanghai, Tianjin and Qingdao to the hinterland. From January to May 1950, the commodities supplied by the trading departments to the big and medium-sized cities and the rural and disaster areas included 173,000 bales of cotton yarn, 8.71 million bolts of cloth (one bolt 30 metres), 1.86 million tons of coal and 106,000 tons of salt, thereby basically meeting the needs of production and the people's livelihood. Beginning from early March in 1950, the trading departments started to sell large amounts of materials under unified command. They sold 2,500 tons of grain in Shanghai every day, and this continued until mid-March.

(3) An approximate balance was achieved between revenue and expenditure after increasing income and reducing expenses.

After consolidation work in various fields, income from various sources rose rapidly. Taxes collected in the cities in the first quarter of 1950 accounted for 16.5 percent of the annual amount; in the second quarter they rose to 20.6 percent; and in the third and fourth quarters they increased to 23.3 percent and 38.6 percent respectively. Taking the year as a whole, the figure was 62.9 percent more than the budget estimate, and it ranked first among the state's income from various sources, surpassing that of agricultural tax paid in grain. Although revolutionary order had not yet been established in the newly liberated areas and 4,000 cadres were murdered in collecting the grain tax as a result of overt or covert sabotage activities by the remnant enemy forces, the amount of grain tax collected exceeded the estimated quota by 4 percent through the concerted efforts of various quarters. The profits and depreciation funds from the state-owned enterprises also increased rapidly, registering an 18.4 percent increase over the budget estimate and ranking third in the state revenue. Other incomes also exceeded the original estimates by 41.6 percent. Thus, the total revenue outstripped the budget estimate by 31.7 percent.

As to the various expenditures, they were reduced to varying degrees. The biggest item of state expenditure was the pay for the military and administrative personnel, government employees and teachers. As a result of streamlining administration, standardizing the supply and pay scales, and unifying management of the government staff, administrative expenditures decreased by 4.5 percent as compared with the budgetary figure. In 1950,

though there were relatively big increases in spendings for national defence and social undertakings by 21.8 percent and 54 percent respectively over the budget estimates, total expenditure exceeded the budget by only 14 percent, which was lower than the increase in revenue. In addition, there was the income from the 90 million *fen* of government bonds, which was why financial deficits decreased gradually. Financial deficits made up 43 percent of the total expenditures in the first quarter, but the figures dropped to 40 percent and 9.8 percent in the second and third quarters respectively, and to 6.4 percent in the last quarter. This meant an approximate balance between revenue and expenditure.

(4) Prices became stable and bank deposits increased by a big margin.

The approximate balance between revenue and expenditure put an end to inflation. Due to cash control and the practice of using special cheques for internal transferring of accounts among government departments and enterprises, the large amounts of money in the government organizations and state-owned enterprises disappeared from circulation. These measures, coupled with the collecting of taxes and the selling of government bonds, effectively reduced the amount of money in circulation. On the other hand, the supply of commodities became relatively abundant because they were concentrated and their use or allocation was placed under unified command. Therefore, after the price hike subsided in February 1950, prices began to go down steadily for the first time after liberation. Taking the wholesale price index in the country in March as 100, it dropped to 75.1 in April and to 69.2 in May, a drop of about 30 percent. Savings deposits in the People's Bank increased rapidly, and the speed of currency circulation was reduced considerably. During the period from February to June, the savings deposits in the People's Bank increased more than five-fold. The monthly turnover of deposits in Shanghai's state-private and private banks dropped from 24 times to 7 in the same period.

The unified management of financial and economic work to keep the prices steady was the first important measure taken in the field of finance and economy since the founding of the People's Republic. In the decades of Kuomintang rule, China's financial and economic work had never been unified. There had never been a balance between revenue and expenditure, and the prices had never been stabilized. Despite imperialist blockade and embargo, sabotage by remnant enemy forces and severe natural disasters,

New China, led by the Chinese Communist Party, successfully checked in less than one year the 12-year-old rampant inflation left over from the old society. It also succeeded in transforming the old market, which had long been controlled by speculative capital and undermined the national economy and the people's livelihood, into a new market which, led by the socialist state-owned economy, helps develop production and guarantees supplies. This has fully demonstrated the superiority of the people's political power, led by the working class, and its socialist economy. The situation at that time was so compelling that the bourgeoisie had no choice but to bow in submission.

III For a Better Finance and Economy

Section I Strategical Plan of the Third Plenary Session of the Seventh Party Central Committee

The victory in unifying financial and economic work and in stabilizing prices enabled the state economy to gain a dominant position over finance and prices, and an embryonic form of planned economy began to take shape. However, just as Mao Zedong had pointed out at the Third Plenary Session of the Seventh Party Central Committee: "We had achieved a number of successes on the economic front, for example, budgetary revenues and expenditures were nearly balanced, inflation was being checked and prices were tending towards stability - all this indicated that the financial and economic situation was beginning to take a turn for the better, but not yet a fundamental turn for the better." Our national economy was still confronted with many serious difficulties.

The Chinese revolution triumphed first in some parts of the country. At that time, in the old liberated areas which had a population of some 160 million, the land reform had been completed, public order had been restored and economic construction had embarked on the right track. The livelihood

of most working people had improved, particularly those in northeast China where planned economic construction had already begun. But in the newly liberated areas which had a population of approximately 310 million, social order was still unstable, for these areas were liberated only a short time ago. The liberation of Tibet and Taiwan remained a heavy fighting task to be accomplished. Thus 40 percent of the financial revenue had to be used to defray military spendings which, plus administration expenditures, took up more than 50 percent of the total revenue.

The unifying of financial and economic work and the gradual stabilization of prices were conducive to the recovery of the national economy and the improvement of the people's livelihood in the cities and countryside. In the course of all this, the old social and economic structure as a whole had undergone varying degrees of reorganization. The spurious high purchasing power in the market during the inflation period had suddenly disappeared and capitalist commerce and industry, accustomed to speculation, could no longer adapt themselves to the new economic situation. Those consumer trades which catered to the extravagant life of the exploiting classes and those trades engaged in making articles for use by people with superstitious beliefs had lost their market completely. The state-owned commerce, on the other hand, had accelerated its pace of progress. In north China, around 80 percent of the grain, cotton yarn and cloth, coal, salt and other important commodities were handled by the state-owned shops and co-operatives. These establishments also handled a wide range of other daily necessities by setting up retail shops and stalls, taking part in rural fairs and sending their goods to the doorsteps of the consumers in the villages. In the meantime, some private industrial and commercial enterprises were over-burdened by taxes and bonds; moreover, they were overstaffed and carried out their business in a haphazard way. Thus, beginning from April 1950 the sale of commodities stagnated not only in such big cities as Shanghai and Tianjin but in the medium-sized and small cities as well. Production in private industrial enterprises dropped drastically. Compared with their production in January 1950, the output of cotton cloth in May went down by 38 percent, silk products dropped by 47 percent, cigarettes by 59 percent, caustic soda by 41 percent and paper by 31 percent. With their private industrial and commercial enterprises deep in economic difficulties, many capitalists dismissed their employees, cut or suspended production,

closed down their factories or stores, and some even abandoned their enterprises and went to other places. According to statistics available at that time, 2,945 factories in 14 cities were shut down and 9,347 commercial establishments in 16 cities suspended business.

In the early days after liberation, China's economy was very backward, and the capitalist industry and commerce still occupied an important position in the national economy. Statistics showed that in the nation's industry (including handicrafts industry), the capitalist industry accounted for 18.3 percent of the total number of workers and staff members, 17.8 percent of the fixed assets and 48.7 percent of the output value, and capitalist commerce took up 76 percent of the total amount of wholesale and 83.5 percent of the retail trade. The shutdown of large numbers of private industrial and commercial establishments inevitably resulted in a sluggish market and an increase in unemployment. According to the figures released by the Federation of Trade Unions, about 100,000 people in the country joined the ranks of the unemployed in March and April of 1950, half of them being in Shanghai.

Such a situation not only brought great difficulties to the rehabilitation of our national economy but also aroused dissatisfaction among a section of the people. In particular the national bourgeoisie were on tenterhooks and its relations with the government and workers became increasingly strained.

The Third Plenary Session of the Seventh Party Central Committee was held in Beijing in June 1950. At the session Mao Zedong made an analysis of the trends of the various classes in China and explained the Party's strategic policy of making a distinction between the enemy, our friends and ourselves, and of uniting with the great majority and concentrating our efforts to isolate and deal blows at a handful of enemies. He pointed out that "We should introduce suitable readjustments in industry and commerce and in taxation to improve our relations with the national bourgeoisie" and that "the view held by certain people that it is possible to eliminate capitalism and realize socialism at an early date is wrong, it does not tally with our national conditions." He noted that it was necessary to advance with steady steps and readjust the relations between various quarters "so that all the workers, peasants and small handicraftsmen will support us and the overwhelming majority of the national bourgeoisie and intellectuals will not oppose us." He made it clear in his speech at the session that, in about three years, the

Party's central task was to strive for a fundamental turn for the better in the financial and economic situation. To realize this, the basic conditions were (1) completion of the agrarian reform; (2) proper readjustment of existing industry and commerce; and (3) large-scale retrenchment in government expenditures.

Section II Proper Readjustment of Industry and Commerce

In April 1950, Mao Zedong proposed at the Seventh Session of the Central People's Government Council that in the following several months, the leading financial and economic departments must put the stress on the readjustment of the relations between the state and private enterprises and between the various branches in the state and private enterprises. A month later, the Central Financial and Economic Commission called a meeting of the directors of industrial and commercial bureaus of seven big cities to discuss concrete measures for readjusting industry and commerce and overcoming the difficulties that arose in the wake of the stabilization of prices. Chen Yun put forward five measures, and the work of readjustment which started with vigour was basically completed by September that year.

Proper readjustment of industry and commerce means: Under the conditions that the state economy had control over the lifeline of the national economy, with large amounts of important materials in stock and maintaining its hegemony over the market, finance and prices, the state, in line with the principle of making overall plans and taking all factors into consideration, gave due consideration to the private industry and commerce with respect to the scope of business, the supply of raw materials, sale of goods on the market, labour conditions, and financial policy. At the same time, the state took such measures towards private enterprises as making them process goods for the state and placing orders¹, with them, with the state having the power to purchase and market all of their products², and making the private enterprises retail distributors or commission agents³, of the state. In this way, their production and the marketing of their goods were drawn into the orbit of the state plans, and they were helped to overcome their difficulties so that they could develop production and do their bit in promoting interflow between the cities and countryside and in restoring the

national economy. At the same time they were enabled to make certain legitimate profits. At that time, special attention was given to the following three basic links:

(1) Readjusting the relationship between the state and private sectors. This consisted mainly of the following work: Increasing the orders placed by the state with private factories for manufacturing and processing of goods and the purchase of their products, so that these private enterprises could continue their production and engage in expanded reproduction, thereby gaining legitimate profits. In 1950, the total output value from the processing and manufacturing of goods by private factories and the state purchase and marketing of their products amounted to 2.1 billion yuan, 2.7 times as much as the 810 million yuan in 1949.

1. Processing goods: The state-owned enterprises (or other state institutions) signed contracts with the private factories and supplied them with raw materials or semi finished products for processing according to the specifications, quality, quantity and delivery date stipulated in the contracts. All the processed products were to be turned over to the material-supplying units which would pay all the costs including the wages, business taxes, reasonable profits and other expenses.

Placing orders: State-owned enterprises (or other state institutions) placed orders with the private factories for certain goods, stipulating the specifications, quality, quantity, delivery date and reasonable prices. The private factories would then manufacture the goods according to the stipulations. The price of a product manufactured according to such orders included the reasonable costs, business taxes and reasonable profits.

2. Unified purchase of products turned out by private enterprises: State commercial departments had the monopoly, as decreed by law, to purchase at reasonable prices all the goods manufactured by private enterprises, which had an important bearing on the national welfare and the people's livelihood.

Unified marketing of products: State-owned commercial establishments purchased and marketed within a specified period of time all or part of the products of private factories according to the stipulated specifications, quality and reasonable prices.

3. Retail distributors: In accordance with the plans of supply of state commercial departments, private retail shops bought commodities from them with cash according to plan and sold them at retail prices prescribed by the state enterprises. They gained a certain amount of profit from the difference between the wholesale and retail prices. The commodities sold by the retail distributors were those completely or largely controlled by the state.

Commission agents: State commerce entrusted the private retail shops with the selling of certain goods. The private dealers sold these goods according to the supplying plans and the prices set by the state enterprises and received a certain amount of commission. Private enterprises acting as commission agents had to deposit a certain sum as security with the state. They were not allowed to buy from the free market those commodities which they handled for the state.

Under the condition that state commerce continued to increase the volume of wholesale, the number of state retail shops was limited as long as they could help stabilize retail prices and curb speculators from manipulating the market. The number of commodities handled by the state retail shops was reduced from over 20 to only six kinds needed by the people in their everyday life, namely, grain, coal, cotton cloth, edible oil, salt and petroleum. Other retail businesses were handled by private shops and peddlers. As to the farm and sideline products, the state companies only handled the major farm products and a portion of the farm and sideline products for export, while the co-ops and private merchants were organized and encouraged to purchase and sell the remaining farm and sideline products.

With regard to import and export trade, the state trading companies, in addition to handling those commodities listed for unified purchase and marketing by the state, handled only those equipment and materials for industrial and military uses, and those equipment and materials for civilian use with the purpose of regulating supply and demand and stabilizing the market, as well as a portion of the major export goods. All other import and export commodities were handled by private businessmen. As for that portion handled by the state, the form of entrusting private merchants under contract to purchase and market certain commodities was also adopted. Appropriate price differences were allowed in order to encourage private merchants to transport goods from one place to another for sale, which helped promote the interflow of commodities between the cities and countryside. This referred to the difference in price between wholesale and retail sales, between the producing and marketing areas, between different seasons, and between raw materials and finished products.

To help the private industry and commerce in the turnover of their capital, the state banks worked in co-operation with the private or native banks to extend loans to the capitalists, and the interest rate was cut successively on two occasions.

Readjusting taxation. Commodity taxes were reduced from 1,136 to 358 kinds, and the method of collecting taxes from the industrial and commercial enterprises was changed from purely democratic appraisal to the following three ways: (a) Checking the accounts on the basis of reports by the taxpayer and levying taxes according to a fixed rate, (b) democratic

assessment of tax on the basis of reports by the taxpayer and public discussion, and (c) paying taxes according to a fixed norm. The salt tax was cut by half, and agricultural tax was levied only on major farm produce with the output of a normal year as the criterion, and the rate of taxation was reduced from 17 to 13 percent.

(2) Readjusting the relationship between labour and capital.

The basic principles followed at that time were: (a) The democratic rights of the working class must be affirmed; (b) labour-capital relationship should be beneficial to developing production; (c) problems between labour and capital should be solved through consultation, and the relations between the two should then move on gradually to a more permanent form of contract system. In case of failure to reach an agreement through consultation, the government would arbitrate between the two parties. On the basis of the above-mentioned principles and with the support of trade unions in the various places, the system of labour-capital consultation meetings was set up in the private enterprises, through which the two parties directly discussed ways to overcome any difficulties. On the one hand the capitalists were urged to actively improve their management, reduce excess personnel and economize on their expenditures, and reduce costs, and they were not allowed to withdraw their capital or shut down their factories. On the other hand, the workers tried hard to raise labour productivity, do more work and shoulder heavier responsibilities. Many workers even volunteered to reduce their own wages, or just stayed at home on rotation, and some even left the factories for other jobs. They made great sacrifices so that the private enterprises could continue to operate. The state, for its part, made great efforts to give relief to the unemployed, and the most needy workers were organized to take part in state construction work.

(3) Readjusting the relationship between production and marketing.

In order to achieve a balance between production and marketing, the government departments concerned convened a series of national conferences on grain processing, salt, goods in daily use, coal, matches, rubber, woolen and jute, textiles, tobacco, printing and dyeing. At these conferences, representatives of both state and private enterprises discussed in a frank and sincere way and worked out production and marketing plans for the different trades according to the principle of fixing production quotas in the light of market demand, and distributed the production tasks in

a rational way. To prevent the enterprises from producing in a blind way, the state made known from time to time the production situation of different trades. As to those enterprises which produced goods not needed by the national economy or which produced goods in excess of demand, the state helped them to shift to other lines of production and gave the workers the necessary training to master new techniques. Some capitalists who hankered only after profits refused to be restricted by the state's production and marketing plans. When the market became prosperous again, they tried by every means to circumvent the restrictions of the state plan. But taking the situation as a whole, in the latter half of 1950, the readjustment of the relationship between production and marketing played its due role in supporting those enterprises which were beneficial to the national welfare and the people's livelihood and in reorganizing the old irrational economic setup.

As a result of the above-mentioned readjustments, the economic situation took a marked turn for the better in the latter part of 1950. More and more private industrial and commercial enterprises started business again. Statistics from the five major cities of Beijing, Tianjin, Hankou, Jinan and Shanghai showed that from March to June, the number of enterprises which suspended business exceeded the number which continued business — in industry it was 2.1 times as many and in commerce it was 4.3 times. But this was reversed in the period from July to October. The number of operating industrial enterprises was 6.5 times as many as those which stopped business, and in commerce it was 3.5 times as many. With the privately owned factories gradually resuming production, output increased month by month. Take Shanghai for instance. The output of seven major industrial products in August was two to five times as much as in April. In the textile industry, the number of spindles in operation in those mills which had all along been operating had increased and their working hours had been extended, and another 14 textile mills with 240,000 spindles, which had long stopped operation, also resumed production in October.

In the four major cities of Beijing, Tianjin, Shanghai and Hankou, the volume of transactions on the market in October 1950 showed a considerable increase over April. For flour, the increase was 54 percent; rice, 290 percent; cotton yarn, 130 percent; and cotton cloth, 230 percent. In the city of Chongqing in southwest China, transactions of eight major

commodities in July increased by 37 percent over June; the increase in August was 24 percent over July, and September saw another 86 percent increase over August. Railway freight handled by the railway bureaus in north China in October was more than double the amount in July, and the amount handled by the south China railway bureaus was four times as much. Some industrialists and businessmen were of the opinion that the market had never been so prosperous in the decade and more since the War of Resistance Against Japan began in 1937.

The restoration and development of private industry and commerce also spurred the improvement of finance and increased state revenue. In the state-private jointly owned banks and the privately owned banks in China's seven major cities, the balance of savings deposits in October increased by 80 percent over April, the balance of bank credits increased 2.5-fold, and the total amount of remittances received and dispatched increased nearly 4-fold. Taxes collected from privately owned industry and commerce in 10 major cities in the third and fourth quarters of 1950 increased by 90 and 80 percent respectively over the first quarter.

The rational readjustment of industry and commerce not only helped the private industry and commerce tide over their difficulties, but also brought prosperity to the entire economy. Moreover, as a result of the adoption of such measures as making private factories process goods for the state, accepting state orders, unified purchase and marketing of all their products, the state was able to have in its hands more industrial goods to regulate the market, stabilize the prices and meet the peasants' need for the means of production and means of living. In this way, the state could also determine the rate of profit for the capitalist enterprises, prevent anarchy in their production and bring them to a certain extent into the orbit of the state plan, thereby further consolidating the leading position of the state sector of the economy.

Section III Continuing the Agrarian Reform And Abolishing the Feudal System

Before the founding of the People's Republic of China in 1949, agrarian reform had already been carried out in the old liberated areas inhabited by

120 million peasants, or 26.7 percent of the nation's total rural population. After the founding of New China, land reform was continued only in the suburbs of north China cities and part of Henan Province in the winter of 1949 and the spring of 1950. This was because in the vast newly liberated areas public order remained to be restored, as remnant enemy troops had yet to be mopped up, and work in the cities was extremely heavy. In June 1950 the Central People's Government promulgated the Land Reform Law, after which the land reform movement gradually spread to all parts of the newly liberated areas. In the autumn of the same year, it was conducted first in 300 counties in east and central south China with a population of about 100 million peasants. In the remaining areas with a rural population of 160 million (mainly in the southwest and central-south), land reform was completed in 1951 and 1952 respectively. The movement was deliberately postponed in Xinjiang, Tibet and other minority nationality regions, but taking the country as a whole, land reform was basically completed by the end of 1952.

Like the land reform in the pre-liberation period, the basic contents of the large-scale movement after the founding of New China were: confiscating the means of production of the landlord class, including land, draught animals and farm implements, and the landlords' surplus grain and houses, and distributing them to the poor peasants and farm labourers who had little or no land. Its basic principle was to rely on the poor peasants and farm labourers, unite with the middle peasants, neutralize the rich peasants and abolish the feudal system of exploitation in a planned way so as to develop agricultural production.

As the War of Liberation had by and large come to an end on the mainland and the balance of class forces was entirely different from what it was at the time of the War of Liberation, the state could help the poor peasants and farm labourers tide over the difficulties by granting them loans. To facilitate the restoration of agricultural production and to completely isolate the landlords and unite with the great majority of the peasants, major revisions were made with respect to concrete policies in the Land Reform Law adopted in 1950, as compared with the Outline Land Law of China worked out and promulgated in 1947.

First, the policy of requisitioning the surplus land and property of the rich peasants was replaced by the policy of preserving the rich peasant

economy. The rich peasant class, which made up about 5 percent of the rural population in China, engaged in exploitation mainly through hiring labourers. Some also rented out part of their land and practised usury, and they were the bourgeoisie in the rural areas. With a comparatively large amount of capital, farm animals and tools, they engaged in large-scale production with relatively high efficiency, which was conducive to the expansion of agricultural production in a given period; moreover, it was possible for them to remain neutral in the revolutionary struggle against the landlords. Therefore, the policy of eliminating the rich peasant class should not be adopted. In the May 4th Directive issued by the Central Committee of the Chinese Communist Party in 1946, it was stipulated that the land and other property of the rich peasants should not be touched in the land reform. From July 1946 to October 1947 when the land reform was carried out in many liberated areas in north China, Shandong Province and east China, however, the surplus land and other property of the rich peasants were confiscated in the same way as the land and property of the landlords were confiscated. The peasants did so because at that time the people's forces were in an inferior position in the extremely intensive and cruel struggle against the Kuomintang reactionaries, and the rich peasants were inclined towards the landlord class in opposition to the land reform and the people's revolutionary war. The Outline Land Law promulgated by the Party Central Committee on October 10, 1947 pointed out that strict differentiation should be made between rich peasants and landlords and stipulated that no struggle should be carried out against the former although their surplus land and other property could also be requisitioned. The Land Reform Law reaffirmed the principle of preserving the rich peasants with this stipulation: All the land cultivated by the rich peasants themselves or by their hired labourers and their other property should be protected, and no encroachment is allowed. The rich peasants should be allowed to "retain" the small amount of land they rented out. It also stipulated that the land the rich peasants rented out, which "exceeded the amount of land cultivated by themselves or by their hired labourers," should be requisitioned.

Second, as for those who rented out small plots, the land would not be requisitioned so long as it was no more than twice the average per-capita amount of land in the locality. This was because these lessors were mainly relatives of revolutionary army men and martyrs, and some were workers,

clerks and labourers engaged in other occupations, and they rented out the land because they were short of hands. Moreover, they owned no more than 3 to 5 percent of the land under cultivation in the locality. Thus the policy of not requisitioning their land was conducive to uniting with them in abolishing the feudal system of land ownership.

Third, as for the landlords, their land, draught animals, farm implements, surplus grain and houses in the rural areas were all confiscated, but their other possessions were not confiscated. This was because the confiscation of the landlord's movable property would result in the landlords hiding and dispersing such property, and this would lead the peasants to go in search of them, thereby diverting attention from the general orientation of the land reform movement. That there was clear stipulation to the effect that the landlords could retain such property to support themselves or to expand production was certainly beneficial for the society. The industrial and commercial undertakings of the landlords were capitalistic in nature and therefore did not fall under the category of feudal exploitation which should be abolished. So, as was done in the past, they were protected in order to reassure the bourgeoisie and promote the development of industry and commerce.

With regard to the suburban areas, all the land confiscated after the land reform belonged to the state and was distributed to these peasants who had little or no land. After liberation, construction in the cities was developing. With the land now belonging to the state, it was thus in a position to freely and rationally use the suburban land for industrial and other construction purposes, without the difficulties of having to requisition such land. Moreover, land was generally not enough for the people to till in the suburbs, where the non-agricultural population occupied a big proportion. So with the land put entirely under the control of the state, those people who were not peasants would not fight for a share of the limited amount of land, which could then be turned over to the tillers. This was beneficial to the development of agricultural production in the suburban areas.

Flexible and appropriate measures were adopted in dealing with the special question of land belonging to the minority peoples and overseas Chinese.

Before the land reform was carried out in the newly liberated areas, these places had generally conducted the movements to round up the bandits

and struggle against the despots¹ and to reduce rent and interest², and the masses had been initially mobilized. When the land reform got started, the various localities organized working teams which mobilized the impoverished peasants to struggle against the landlords. In these places the poor peasants-farm labourers groups and peasant associations were established. Meanwhile, in conjunction with the movement to suppress the counter-revolutionaries, a number of despotic landlords who were the most powerful in the rural areas, had committed heinous crimes and were most hated by the masses, and law-breaking landlords who had committed serious sabotage were either executed, jailed or put under surveillance. Then under the leadership of the peasant associations, a face to-face struggle was carried out against the landlords. During the accusation meetings, the peasants poured out their grievances, reasoned things out and settled accounts with the landlords. Thus, by relying on their own struggles, the peasants deflated the arrogance of the landlords and established the political supremacy of the poor peasants and farm labourers. This completely uprooted the feudal rule of the landlord class and paved the way for the rational distribution of land.

At that time some people held that there was no need to carry out the land reform and some held that the land reform could be conducted "peacefully" in areas south of the Changjiang (Yangtze) River. Their reason was that capitalist industry and commerce were comparatively developed in these areas and that feudal exploitation was not serious. Facts proved that this point of view was wrong. Take for instance east China, where capitalism was most developed in old China. The landlords who lived in this part of the country accounted for only 3 to 4 percent of the rural population, but they owned 30 to 50 percent of the land in the rural areas, and their average per-capita share of land was more than 20 times the amount owned by the poor peasants. According to an investigation of 11 counties in southern Jiangsu Province, there were big landlords who owned hundreds of hectares of land

in many counties. And the land rent generally amounted to over half the amount of the major crops, or one-tenth of the land price. The landlords seized not only all the surplus products of the peasants but also their means of subsistence. Rent deposits and rent in advance were as a rule demanded by the landlords; the former was about half the land price and the latter about one year's harvest. Added to these were numerous other kinds of exploitation, and the result was that 70 to 80 percent of the year's harvest of the peasants lined the pockets of the landlords. Like those in the other parts of China, the landlords in areas south of the Changjiang River worked hand in glove with the warlords and bureaucrats and were even more crafty. Some even joined the bandits and secret agents in stirring up riots and murdering peasants and cadres. Therefore, even in the industrially and commercially developed areas, the land reform was likewise a tempestuous mass movement and an acute large-scale class struggle in which the peasants stripped the landlords of all their economic prerogatives.

Since the land of rich peasants and lessors of small plots was generally not requisitioned, the amount of land available for distribution among the peasants after the land reform was slightly less than in the old liberated areas. Nevertheless, it was still about 40 percent of the total in the rural areas. In accordance with the policies of the land reform, the poor peasants and farm labourers were all given land, and the middle peasants who did not have enough land also benefited from the movement. Even the tenant rich peasants were given a share of land. According to a rough estimate from various places, the peasants who benefited from the land reform accounted for 60 to 70 percent of the rural population. A total of 46.6 million hectares of land, or 46.5 percent of the nation's total area under cultivation, were either confiscated or requisitioned during the land reform, and about 300 million peasants benefited from it. For instance, land rent exemption alone had saved them 35 million tons of grain a year. During the land reform in the newly liberated areas the peasants were also given a total of 2.97 million head of draught animals, 39.54 million farm tools, 38.07 million houses and 5.25 million tons of grain. There was a drastic change in land ownership by the various social strata. For instance, 7.93 million hectares of land were confiscated in east China, or 34.6 percent of the total. The poor peasants and farm labourers received each an average of 0.1 hectare of land. This, plus the land they originally had, added up to 0.16 hectare for each poor peasant and

1. This refers to mopping up remnant Kuomintang troops and secret agents as well as all private reactionary armed bands, and struggling against despotic landlords in the rural areas who were guilty of heinous crimes.

2. Reduction of rent and interest was the land policy followed by the Chinese Communist Party during the War of Resistance Against Japan. It was designed to reduce the burden of land rent and usury on the peasants. Land rent, which amounted to half the peasants' farm produce, was cut by one fourth; and interest was reduced to 1.5 fen.

farm labourer, which was equivalent to 90.2 percent of the average amount of land for each peasant in the locality. The middle peasants were given each an average of 0.03-0.06 hectare of land, and the average for each was 0.2 hectare when the original amount of land they had was reckoned. This was higher than the local per-capita average by 12.7 percent. The rich peasants' land was reduced by an average of 0.05 hectare per person, and each of them retained 0.25 hectare. This was the highest figure in the locality, being higher than the local average by 43.6 percent. The landlords were also given a share of land, averaging 0.14 hectare per person, which was equivalent to 79.6 percent of the average per-capita figure in the locality. In this way the feudal system of land ownership was completely destroyed.

The land reform thoroughly uprooted the social basis of imperialism, feudalism and bureaucratic capitalism in China's rural areas. The labouring peasants were emancipated and became their own masters. The land reform had also greatly strengthened the worker-peasant alliance and consolidated the position of the people's democratic dictatorship in the countryside. The enthusiasm of the broad masses of peasants for the development of production was enormously enhanced, which in turn energetically expedited the recovery of the economy. From 1950 to 1952, the total annual output value of agriculture increased by 17.8, 9.4 and 15.2 percent respectively over the preceding year.

While the land reform was going on in the newly liberated areas, the masses in the factories, mines, communications, construction, transport and other enterprises in the cities were mobilized to carry out the democratic reform movement with the spearhead of struggle directed against oppression and exploitation by the feudal gang masters.

Feudal exploitation and oppression was not only rampant in the countryside but existed to varying degrees in the cities. Feudal forces like the gang masters in the above-mentioned sectors had a monopoly over the employment of workers, and they often deducted the workers' pay, barbarously exploited and beat up the workers, and raped the women workers and even the wives and daughters of the male workers. They rode roughshod over the workers and committed all manner of crimes. Many of these gang masters collaborated with the counter-revolutionaries or were themselves the mainstay of counter-revolutionary forces; they cracked down on the workers' revolutionary activities and oppressed and treated the workers as slaves at the beck and call of imperialist elements and bureaucrat

capitalists. When the cities were liberated, the status quo was maintained in the enterprises, and as the takeover was carried out from the upper level downward according to the different trades, these gang masters were not dealt with in time. Some of them and other despots disguised themselves and wormed their way into the workers' ranks. Using their past relationships and influence to advantage, they continued their control and enslavement of the workers. The general mood among the workers was that they had not really become masters of their factories. In the coal mines, for instance, the formerly exploitative "contracting counters" changed overnight and became production groups, and many leaders of the groups were former gang masters or their thugs. The hidden counter-revolutionaries were also quite unbridled in their activities. According to incomplete statistics, there were 253 counter-revolutionary sabotage acts or attempts from 1949 to March 1950 in the industrial and mining areas of Shenyang, Anshan, Benxi and Fushun as well as in the factories and mines in Jilin, eastern Liaoning and Songjiang, which were all liberated earlier than the other places. Some were armed aids and some took the form of destruction of machines, arson, explosions and assassinations, which brought losses to the state.

The Government Administration Council and the Ministry of Fuel Industry decided in March 1950 to abolish the feudal system of gang masters in the transportation departments and in the coal mines. Later, in conjunction with the labour insurance registration and the movement to suppress counter-revolutionaries, the workers in the various enterprises were mobilized in a big way towards the end of 1950 to struggle against those despots and secret agents who were guilty of heinous crimes and deal with them according to law. This dispelled the spectre of these dark forces which had been haunting the workers. The consensus among the workers was: "Now we are really liberated." Prior to this, the people in many places were of the view that though progress had been made in the year since liberation through production emulations, rationalization and democratization of management, major problems remained unsolved. Though nominally liberated, the workers were in reality still in the grip of the trinity of secret agents, foremen and factory chieftains. The takeover would therefore mean nothing unless democratic reforms had been fully carried out, and only then would a new stage of production management be ushered in.

In the subsequent democratic reforms, all the systems and practices in

the enterprises that oppressed and enslaved the workers, such as the contract labour system, the institution of foremen, body searching, unlawful corporal punishment, and irrational penalty regulations, were abolished. Moreover, the masses were mobilized to condemn and repudiate them with a view to raising the consciousness of the workers as a whole. As for the staff members and overseers who were in charge of implementing the above-mentioned systems, except those who had committed crimes, all the others were generally criticized and educated so as to unite with them to expand production. Meanwhile, the leading bodies and administrative setups of the enterprises were reorganized, and factory management committees composed of representatives of workers and technical personnel and workers' congresses were set up. Advanced workers who enjoyed a high prestige among their mates were promoted to take part in the management. The old administration organs were reorganized and the various sections were streamlined. The system of shifts and teams was introduced in the workshops and the principle of democratic management was followed. All this greatly enhanced the enthusiasm and initiative of the workers.

Through the land reform in the rural areas and the democratic reform movement in the cities, the feudal enslavement system, that had entrenched itself in China's urban and rural areas for a long time, was basically shattered. But in view of the fact that feudal rule had extended for thousands of years in China and the impact of feudal ideas and traditional concepts was so widespread and deep-rooted, an effective means to do a good job of socialist economic management was to give full scope to people's democracy.

IV Reorganization and Restoration of the Economy

Section I Principles of Financial and Economic Work After Outbreak of the War to Resist U.S. Aggression and Aid Korea

When China's economy was turning for the better in the early post liberation days, the United States launched a war of aggression against

Korea in June 1950 and openly sent its fleets to prevent our country from liberating Taiwan Province. After occupying Pyongyang in October, the U.S. troops of aggression spread the flames of war to the Yalu River and were looking for opportunities to invade our industrial bases in northeast China. The United States also intensified its embargo and blockade in a vain attempt to strangle New China in the cradle. The Chinese people launched a mighty movement to resist U.S. aggression and aid Korea and to safeguard their motherland. They organized the Chinese People's Volunteers who crossed the Yalu River in the latter half of October to fight shoulder to shoulder with the Korean People's Army against U.S. aggression.

The War to Resist U.S. Aggression and Aid Korea affected the Chinese national economy greatly. First, it brought a rapid increase in military spending and other related expenditures, which took up nearly half of the total financial outlay. To meet the needs of the war, therefore, became the primary task of financial work at that time. Second, the U.S. embargo and blockade seriously affected the export of many Chinese native products and the import of the urgently needed industrial raw materials, equipment and instruments. In addition, the U.S. bombing of our border region in northeast China directly threatened the economic restoration and construction of our key areas. Third, the intense political situation caused uneasy feelings among the people. Idle capital in the society and the government organizations, army units and enterprises vied with each other in buying goods and materials which were in short supply, thus causing price hikes for some goods, especially the imported industrial equipment and materials, cotton yarn and cloth as well as gold, silver and U.S. dollars. Statistics available at that time showed that the prices soared 4.6 percent in October 1950, and the prices of gold and silver on the black market in Beijing and Tianjin went up by 25 percent. As a result, the speed of currency circulation increased and speculative capital was again ready to go into action.

In November 1950, the Central People's Government convened a second meeting on financial work and studied the situation after the outbreak of the War to Resist U.S. Aggression and Aid Korea and laid down the principles for financial and economic work in the days to come. The meeting held that financial and economic work in 1951 must give top priority to the needs of the war and, whether in financial or material resources, the first consideration must be to ensure victory in the war.

At the meeting, Chen Yun explained the importance of stabilizing prices after the outbreak of the war. He said that efforts should be made to achieve a balance between revenue and expenditure and ensure the stability of the domestic market, and pointed out that this was only second in importance to the war in making arrangements for our financial and economic work. This was because China's economy was very weak and there were not many goods and materials in store. As the war was going on, this might bring a nationwide price hike at any time. If this should happen, it would not only bring huge economic losses to the state and the people but also adversely affect the political situation. Numerous complicated factors might give rise to price fluctuations, such as the amount of goods produced, the demand in society, the conditions of transportation, as well as the political situation and the psychology of the people. But the decisive factor was the balance or imbalance between revenue and expenditure. Thus, as long as an approximate balance was achieved between revenue and expenditure and no or only a small amount of paper currency was issued, the prices would be stable again even though they might fluctuate as a result of other factors, and the market would be kept stable basically.

At that time state revenue was scarce. It was necessary to do a lot of work to increase revenue and reduce expenditure in order to meet the needs of national defence and to stabilize the money market.

Chen Yun said that outlays for investment purposes could only be regarded as third in importance. In other words, only after giving due consideration to the needs of the war and the stabilization of the domestic market should we use what money was left to do things according to our abilities. With regard to investments in economic and cultural construction, efforts must be made to meet the needs of the following: military industries which had a direct bearing on the war, projects that would help increase the revenue, and projects that were closely related to the stabilization of the market. Apart from these, investment in all other projects must be cut or cancelled. In the meantime, the state helped sell the farm and sideline products of the peasants, thereby appropriately increasing the amount of taxes by several billion *jīn* of millet to support the war and keep a favourable balance between financial revenue and expenditure.

These were the principles put forward at that time for financial work, namely, putting national defence in the first place, stabilization of prices second and the others third.

Section II Elimination of Imperialist Economic Forces And the Struggle Against Embargo and Blockade

After launching its war of aggression against Korea, the United States gradually tightened its blockade and embargo against our country. On December 16, 1950, it flagrantly announced its control over Chinese public and private property in the United States and prohibited all ships that had registered in the United States from sailing to China. The Chinese Government, giving tit for tat, began to eliminate remnant U.S. imperialist economic forces in China and at the same time launched a flexible struggle against embargo and blockade.

The imperialist economic forces in China had gradually declined as the war of liberation moved onward from victory to victory. Realizing that their privileges in China would soon be abolished, the imperialists moved their capital out of China and left behind only a few factories and mines and related equipment and real estate which could not be taken away. Most of them belonged to the big American and British monopoly capital, accounting for about five-sixths of the total foreign assets in China, and the rest belonged to the companies of France and a dozen other countries. There were also some small factories and stores managed by foreigners residing in China.

The policies adopted at the Second Plenary Session of the Seventh Party Central Committee stipulated that the Chinese Government would, after the founding of New China, allow the remnant imperialist economic forces to continue to exist for a certain period of time under government supervision or control. As for the ordinary foreigners residing in China, the government would safeguard their lawful rights without any interference.

But after the U.S. Government announced its control over Chinese public and private property in the United States, the Government Administration Council of China issued an order on December 28, 1950 to control and investigate all the property of the U.S. Government and American enterprises in China and to freeze all their bank savings. It also ordered the requisition of the property of the Asiatic Petroleum Company of Britain on April 30, 1951 when the British Government followed the United States in the aggression against Korea.

To facilitate its tit-for-tat struggle, the Chinese Government did not

confiscate all the property without any compensation; instead, it settled the cases one by one through various forms. American property was severely dealt with. Those enterprises which infringed on China's sovereignty and were important to the national welfare and the people's livelihood were all requisitioned. These included Standard Oil, Texaco and the Sino-American Oil Company, as well as the Shanghai Electricity, Shanghai Telephone and China Electricity Companies which had already been put under the control of the People's Liberation Army. As for the less important enterprises, they were controlled for the time being by the government and would be requisitioned whenever circumstances required. In the case of ordinary enterprises, the method adopted was to strengthen the control over them. The Chinese Government also recovered without any compensation all the land occupied by the U.S. Government and American people in China.

In the case of British enterprises, the Chinese Government only requisitioned the Shell (Asia) Company, the Shanghai Dockyards and the Muller Shipyard. The Kailuan Coal Mine was taken over for temporary control as the British could not keep it going. The Yizhong Tobacco Company, the China Soap Company and the Astor House Hotel in Tianjin were of their own will transferred to Chinese hands. During this period, a number of other American and British enterprises, which did not stand in the way of China's progress, were left intact.

Statistics showed that the number of foreign enterprises had decreased from 1,192 in the period immediately after liberation in 1949 to 563 in 1953, their employees had been reduced from 126,000 to 23,000 and their assets from 1.21 billion yuan to 450 million yuan. Of these, British firms had decreased from 409 to 223, with the number of their employees reduced from 104,000 to 13,000 and their assets from 690 million yuan to 310 million yuan; and the number of U.S. firms dropped from 288 to 69, their employees from 14,000 to 1,500, and their assets from 390 million yuan to 16 million yuan. China had therefore basically eliminated the remnant imperialist economic forces in the country, which enabled it to maintain its initiative in international relations in the years that followed.

In the early post-liberation days, despite the harassment of Kuomintang warships and aircraft off the coast of southeast China, our major foreign trade partners were still the capitalist countries, which accounted for two-thirds of our total volume of imports and exports in 1950.

After the United States launched its war of aggression in Korea in June 1950, the prices of strategic materials on the world market went up and the U.S. dollar and British pound sterling devalued successively. Aware that the United States would freeze our assets abroad, our government, which at that time had a considerable amount of foreign exchange in U.S. dollars in hand, decided to double its imports in the second half of 1950 and at the same time relaxed certain measures so as to grant the privately owned enterprises more foreign exchange which they needed. In this way we bought and shipped in large amounts of important and urgently needed materials including rubber and silicon steel plates.

In December 1950, the United States froze all Chinese assets and intensified its blockade. It also manipulated the United Nations to adopt a resolution on May 18, 1951 to impose an embargo on our country. Not only were all Chinese bank savings and materials in the United States frozen, goods destined for China were intercepted and held up in ports controlled by the United States. Moreover, freighters sailing off the Chinese coast were sometimes shelled or intercepted, and ships carrying goods for China were not allowed to stop for refuelling at many ports on the way. Using spurious pretexts such as conducting an examination, the U.S. authorities detained ships registered in Panama and leased by China, revoked their licenses and refused to give them clearance.

In order to import strategic materials and other needed goods in time, and to export China's traditional and special products from the rural areas so as to minimize the losses incurred from frozen Chinese assets and materials abroad, the Chinese Government adopted the following measures:

(1) Shifting the focus of foreign trade to the Soviet Union and the other people's democratic countries in East Europe. On the one hand, China reorganized the production of export goods in a planned way so as to gradually meet the needs of these countries. On the other, it briefed these countries on its actual needs in industrial equipment and instruments and raw materials in the forthcoming several years so that they could expand their production accordingly. In 1951, the volume of China's imports and exports with the Soviet Union and other East European countries accounted for 61.9 percent of the nation's total, as against 25.9 percent the year before. In addition, the Chinese Government leased Soviet freighters and set up a China-Poland joint shipping corporation enabling our imported goods to be

unloaded at the ports in north China, thereby ensuring the transportation of imported and exported goods.

(2) From early 1951 China carried out its trade with capitalist countries on a barter basis, directly linking imports with exports, exchanging goods of equal values and striking a balance or near-balance between imports and exports. The exported goods were divided into three groups. The first group consisted of major strategic materials which were forbidden to be exported to the capitalist countries. The less important strategic materials were listed in the second group and were allowed to be exported. Such materials as hog bristles and tung oil which were in great demand but in short supply were particularly sought after by foreign businessmen. The form adopted was to import first what we needed before we exported our commodities in exchange for them. The commodities we urgently needed were rubber, petroleum, iron and steel, non-ferrous metals, medicines, cotton and gunny-sacks. At the same time, through the method of settling the accounts first before sending the commodities, China exported as many native and special products as possible so as to reduce to the minimum the losses of the peasants, workers and private industrialists and businessmen who engaged in the production, processing and sale of these products.

(3) Taking advantage of the contradictions between the various Western countries and within those countries themselves, the Chinese Government worked in co-operation with the privately owned enterprises to carry out foreign trade through flexible and special methods. While the United States tightened its economic blockade, the Western European countries were still willing to do business with China. Even the British Government, which closely toed the line of the United States, tacitly allowed its businessmen to do business with China overtly or covertly, with Hongkong as their base. To bypass the restrictions of their governments, some foreign businessmen moved their trading centres to Hongkong and established peripheral organizations to trade with China. Using these contradictions, China succeeded in recovering through various channels most of the assets and materials which were in danger of being frozen or detained as a result of the embargo, thereby reducing the losses to the minimum.

Through these intense struggles, China increased its volume of imports and exports to US\$1.96 billion by the end of 1951, which was 73 percent

more than the previous year. Of this amount, US\$900 million, the same as in the year before, were from the trade with capitalist countries. In this way China exported the less important commodities in exchange for urgently needed materials. Among the exports, 48.6 percent were commodities of the least important third group, 25.7 percent were goods of the second group, and the first-group materials accounted for only 25.6 percent. As for the imports, 73.9 percent were first-group important materials. The amount of imported rubber, cotton, rubber tyres, chemical fertilizer and gunny-sacks accounted for 39 percent of the total value of imports from the capitalist countries. Thus China scored a great victory in the struggle against blockade. In February 1952, China signed trade agreements involving huge sums of money directly with the West European countries at the Moscow International Economic Conference. It also signed a Sino-Japanese trade agreement in April and a Sino-Ceylonese (Sri Lankan) trade agreement in October that year, thereby further impinging on the embargo and blockade imposed by the United States.

Section III Facilitating Economic Interflow Between the Cities and Countryside, Stabilizing and Enlivening the Market

During the War to Resist U.S. Aggression and Aid Korea, there emerged many new factors which pounded at the market. In October 1950, the Chinese People's Volunteers crossed the Yalu River to aid Korea. This brought in its wake a sudden increase in military expenditures. In society, the mentality that to store goods was better than to put the money in the banks began to surface again. Government departments, army units and other organizations began to withdraw large amounts of their bank savings, which accounted for 90 percent of the total savings deposits in the state banks, to purchase in a rush the commodities they most needed. That year the purchasing power of the peasants increased considerably resulting from a rich autumn harvest, while the purchase of agricultural and sideline products was adversely affected by the stringent measures taken by the banks in giving credits. All this threatened the stability of the market prices. This was particularly the case with cotton yarn and cloth whose supply was at that time far short of demand. If appropriate measures were not taken in good time, a general hike of prices would be inevitable.

On November 5, the central authorities issued orders that emergency measures be taken. The bank savings of government departments, army units and other organizations were temporarily frozen and were all used instead as their budget allocations for 1951. This measure removed the biggest potential threat to the market and made it possible for the state banks not to increase issuing large amounts of money to meet the withdrawal of savings deposits and the payments of financial borrowings. This measure also made it unnecessary for the banks to demand the quick repayment of loans granted to the state-owned trade departments, and the banks were thus able to help them quickly resume the purchase of agricultural products.

In order to stabilize the prices, the central task at that time was to stabilize the prices of grain in the cities and the prices of cotton yarn and cloth in the countryside. The Government Administration Council formally adopted a decision on January 4, 1951 that all the cotton yarn and cloth were to be purchased by the state according to plan. This increased the strength of state commerce. And through proper allocations by the state, hoarding and speculation were banned, thereby ensuring supplies to the people in the cities and rural areas. At the same time, a powerful transportation headquarters was established to make overall arrangements for the transportation of military supplies and the people's daily necessities. Full use was made of all kinds of means of transport, including outdated facilities, to bring the grain scattered in the remote and out-of-the-way rural areas to the nearest railway lines, so as to ensure the supply of grain, salt and coal in the cities.

Of course, freezing bank savings was only a temporary measure. The planned purchase of all the cotton yarn and cloth by the state was also a measure which had to be adopted due to insufficient supplies. The fundamental way to stabilize the prices was to develop the economy and achieve a balance between revenue and expenditure. To achieve the latter, the state adopted the decision to collect an added tax on grain delivered to the state, import and export tax and other taxes. The added income from these sources was equivalent to several billion kilogrammes of millet. The problem was that as a result of these income-increasing measures, the major burden would be borne by the peasants. Could they bear the burden? Chen Yun pointed out at that time that so long as we could sell the agricultural and sideline products, it was possible to increase the peasants' burden to a certain

extent, because the output of agricultural, sideline and native produce had increased rapidly after the land reform and active measures had been adopted to encourage the peasants to develop production. According to an estimate at that time, the peasants' income from hog bristles, tung oil, tea, eggs and medicinal herbs accounted on the average for about 10 percent of their total earnings from farming, and in some places it was 20 percent or more. In 1950, the total value of special and local products was equivalent to about 12 million tons of grain, which was the amount of grain delivered to the state that year. Most of these special and local products had remained in the hands of the peasants because many years of war had impeded normal interflow of goods between the cities and the countryside and the embargo imposed by the United States had created difficulties for export. Thus, if the peasants could be helped to market their special and local products, they would not feel the pinch when several hundred million yuan of taxes were collected from them.

Chen Yun also pointed out that to increase the purchase and marketing of agricultural, sideline and native products was not only a question that concerned the countryside, but also a question of crucial importance to enlivening the national economy. Financial and economic work over the preceding half year proved that the prosperity of the cities was the result of an upturn of the rural economy. The sale of agricultural, sideline and native products led to an increase in the purchasing power of the peasants, which in turn promoted the development of urban industry and commerce and reduced or eliminated unemployment in the cities. Purchasing power in the cities also went up. The prosperity of industry and commerce boosted state revenue, reduced the financial difficulties and stabilized the prices. Therefore, to stimulate the interchange between the cities and countryside became a task of paramount importance in financial and economic work in 1951.

For this purpose, priority was given to unclogging the circulation channels and promoting the sales of special and native products from the countryside before expanding the rural market for industrial products. To accomplish this task, attention was paid to two aspects: One was to solve the question of working capital and the other was to expand the market.

After freezing the bank savings of government departments, army units and other organizations in the winter of 1950, the state trade

departments quickly resumed the issuance of funds. But at a time when the state was confronted with financial and economic difficulties, to rely solely on the state trade departments to raise funds was far from sufficient. According to an initial plan for 1951, the state could purchase native and special products worth 2 billion yuan, but there were about 2.4 billion yuan worth of special and native products in the hands of the peasants waiting to be purchased. The various localities therefore adopted different methods to solve the problem of working funds: (1) When the state purchased these products, it paid for part of the products in cash, bartered another portion and bought still another portion on credit, or sold the products on the peasants' behalf through the state-owned trade departments. (2) Encouraging the peasants to take part in credit savings, the interest rate being slightly higher than that of bank savings. This was a method of using the peasants' money to solve their problems. (3) Making use of the funds of the private sector of the economy and encouraging privately owned banks and monetary organizations to grant loans to private businessmen to purchase special and native products in the countryside. The above-mentioned methods basically solved the problem of shortage of working funds for purchasing these products.

The best way to find a market for the low-selling special and native products was to sponsor native products fairs at the county, provincial and big administrative regional levels, attended by representatives of trade departments, supply and marketing co-operatives and privately owned business undertakings in the locality and in various regions throughout the country. Representatives of the producers of these products were also invited to these fairs. Some counties, provinces and big administrative regions held at the same time exhibitions of native products. All these facilitated the interflow of goods, and restored or established the necessary commercial ties. North China was the first to hold such fairs. From the winter of 1950 to the spring of 1951, the region basically sold out its special and native products equivalent to the value of 2.5 million tons of grain. After the Financial and Economic Commission under the Central People's Government popularized this good method to stimulate the exchange of goods between the cities and countryside, similar fairs were held one after another all over the country. According to a rough estimate, 1.4 billion yuan worth of native and special products were sold through such fairs across the country.

Organizing the masses to engage in "short-distance" goods exchanges was another important method. Usually, the native and special products were scattered over a large area. Great in variety, large in amount, and big in size, they could not be easily transported over long distances. So an effective way was to organize the masses to take their products to the traditional country fairs in their own localities to barter for goods they needed.

Another good method to promote the sale of native products was to set up companies in selected goods-distributing centres and encourage individuals to run warehouses which functioned as stations for handling industrial and agricultural products and intermediaries for transactions between privately owned enterprises.

With the whole country attaching importance to the task of marketing native products and promoting the interflow of goods between the cities and the countryside and doing the work under the guidance of departments concerned, in 1951 many formerly unsalable products became goods much sought after, and this meant an increase in the income of the peasants. Hence a greater demand for industrial products in the rural areas. This led to a wider range of goods exchanged. Whereas only native products were marketed in the beginning, industrial products were sold later at the same time. Thus the native products fairs developed into large-scale commodities fairs selling both industrial and agricultural products.

The lively interflow of goods between the urban and rural areas brought in its wake economic prosperity. Statistics showed that the country's total industrial output value in 1951 increased by 38.2 percent over the previous year. Light industry emerged from the stage of maintaining the status quo and restoration to the stage of development, while the machine-building industry began to receive more orders than it could manage. With regard to commerce, both purchases and sales increased by a big margin over 1950. Privately owned industrial and commercial enterprises enjoyed greater development than during the period of readjustment of industry and commerce, and the capitalists considered 1951 as a "golden period" which they would not easily forget. Figures from Shanghai, Beijing, Tianjin and five other major cities showed that the number of privately owned industrial and commercial enterprises increased by 57,277 as compared with 1950, and their profits doubled. The economic prosperity led to an obvious increase in the employed population. According to incomplete statistics from the

various provinces and municipalities, in the first half of 1951 the number of workers and staff members increased by 120,000. Economic prosperity also enabled state revenue to double in 1951 as compared with that of the previous year. The result was that though national defence expenditures in 1951 increased by 80 percent, there was still a favourable balance of 1.01 billion yuan, thus making 1951 the first year in which there was a balance of financial revenue and expenditure since the founding of New China. Despite the tremendous effects of the War to Resist U.S. Aggression and Aid Korea on the market, China's wholesale price index in the first half of 1951 was equivalent to only 91 percent of that in March 1950 when China's financial and economic work was put under unified leadership. In this way, the planned target for financial and economic work was fulfilled.

Section IV The Campaign to Increase Production And Practice Economy, and the Struggle Against the "Three Evils" and "Five Evils"

In July 1951, the War to Resist U.S. Aggression and Aid Korea entered the stage of carrying on the fighting while negotiating. In order to win complete victory in the war and accelerate the restoration of the economy, the Party Central Committee put forth in October 1951 the principles of "better troops and simpler administration," and of "increasing production and practising economy." A mighty movement to increase production and practise economy soon swept the country.

During this movement, large numbers of experts at technical innovation and model workers and advanced elements came to the fore. Production records were shattered and the technological level was raised. All this effectively promoted the development of industrial and agricultural production. At the same time, the "three evils" (corruption, waste and bureaucracy) among the cadres and the "five evils" (bribery of government workers, tax evasion, theft of state property, cheating on government contracts and stealing of economic information for speculation) among the owners of private industrial and commercial enterprises were brought to light.

The Chinese Government serves the people wholeheartedly. The major

reasons for the "three evils" among the cadres were: There was inevitably the evil tendency towards corruption among some of the civil and military personnel of the Kuomintang regime who were allowed to stay on to work after liberation; a handful of cadres who had gone through the test of long wars had degenerated into agents of the bourgeoisie in the government, army and Party. Just as the Second Plenary Session of the Seventh Party Central Committee had predicted, these cadres had not been conquered by enemies with guns and were worthy of the name of heroes. but they failed to withstand the attack of sugar-coated bullets by the bourgeoisie.

With regard to those private industrialists and businessmen, they had received support in 1950 and 1951 from the people's government to develop their privately owned industry and commerce which were beneficial to the national economy and the people's livelihood. But after overcoming their difficulties, they tried by every possible means to break away from the leadership of the state-owned economy and they refused to accept orders for processing work. Instead, they resorted to various despicable methods to carry out illegal activities in order to rake in exorbitant profits.

To beat back the attack of the bourgeoisie, smoothly implement the principles of "better troops and simpler administration" and of "increasing production and practising economy," and speed up the recovery of the national economy, on December 1, 1951 the Party Central Committee adopted the Resolution on Streamlining the Administration, Increasing Production and Practising Economy, and Struggling Against Corruption, Waste, Bureaucracy. On January 26, 1952, the Party Central Committee issued the Directive on Carrying Out Within a Stated Period a Large-Scale, Resolute and Thorough Struggle Against the "Five Evils." By the end of May that year, a struggle of great momentum against the "three evils" and "five evils" had swept the country.

The movement started with eliminating the "three evils" within the Party and government. Efforts were concentrated on punishing big embezzlers who took more than 10,000 yuan. At the beginning, quotas and tasks were set for each department, which resulted in a few excesses and false charges. When the masses were aroused, the Party Central Committee stressed paying attention to evidence and strictly forbade extorting confessions by compulsion and giving them credence. It also decided that the principle of combining reform with punishment should be implemented

in dealing with persons guilty of corruption, and that capital punishment should only be meted out to those guilty of serious crimes of corruption, such as Liu Qingshan and Zhang Zishan, former secretaries of the Party Committee of Tianjin Prefecture. As for those minor embezzlers, they would be given lenient treatment so long as they made a clean breast of their crimes. With regard to those people who were only after petty advantages, the method of self-education was adopted so that they would return on their own the public property they had taken.

In the struggle against the "five evils," in order to continue uniting with the bourgeoisie to restore the economy and develop production, the Party Central Committee laid particular stress on dealing with different cases in different ways. The private industrial and commercial units were classified into five categories according to their behaviour: the law-abiding units, units partly abiding by the law and partly violating the law, units seriously violating the law, and units whose activities totally violated the law. It also stipulated that the last two categories should not exceed 5 percent so as to minimize the scope of attack. In passing judgments, the following principles were followed: leniency for past offences and severe punishment for future offences; leniency for the majority and severe punishment for a few; leniency towards those owning up to their crimes and severe punishment for those refusing to do so; leniency for industrial units and severe punishment for commercial establishments; and leniency for ordinary commercial units and severe punishment for commercial undertakings engaged in speculation." This enabled most of the private industrial and commercial units to cast off their mental burdens. After the judgments were passed, leniency was again shown to those private industrial and commercial units that had earned profits in violation of the law. This made it possible for the capitalists to retain a portion of these profits after they had handed over to the state their illegal earnings and paid their evaded taxes.

In order not to affect production, in the movements against the "three evils" and "five evils," capitalists who attempted to resist the check-ups by stopping production, stopping paying the workers and other means were ordered to get ready the needed materials and make preparations for the resumption of production. The state-owned commercial companies still placed orders with the private industrial and commercial enterprises and the banks granted them loans to help them continue production. During such a

fierce struggle, however, it was impossible for production not to be affected. In the struggle against the frenzied attacks of the bourgeoisie, on the one hand a "leftist" tendency developed among some workers and cadres, and on the other many capitalists lost confidence in their future and took a passive wait-and-see attitude. Some even deliberately refused to co-operate. In the later stage of the movement against the "five evils," therefore, the market was sluggish, the number of unemployed increased, interflow between the cities and the countryside was impeded, and the relations between the public and individual sectors and between labour and capital were very much strained. At that time, the capitalists were hard pressed as they had to return their illegal incomes and pay the taxes they had evaded.

In view of the above-mentioned situation, the central authorities decided to allow a tiny number of major speculators and enterprises which were not beneficial but only harmful to the society to go bankrupt, but adopted suitable measures to help private industrial and commercial undertakings carry on their business, because only in this way could the state collect taxes from them. In the case of capitalists who could not immediately return their illegal earnings and pay the taxes they had evaded, they could sign bills acknowledging their debts so that they would pay the money in several instalments. In any case, the taxes must be paid. At the same time, the central authorities decided to continue to place orders with capitalists for processing goods and expand purchases from them, so as to ensure the privately-owned factories to earn a profit equivalent to 10-30 percent of their capital every year under normal and reasonable management.

The central authorities also decided that retaliations by the capitalists against the workers must be stopped and that the demands put forward by the workers should be compatible with the capabilities of the enterprises and must not be too high. The property of the capitalists must be protected. The right of enterprise management and the arrangement of personnel remained in the hands of the capitalists and their representatives, who nevertheless must abide by the laws and decrees of the government.

In addition, the central authorities also decided to further readjust the difference between wholesale and retail prices. Under normal conditions, it was increased to 10-18 percent for articles in daily use. The scope of state-owned retail business was reduced and the ratio between public and private commerce was stabilized at 1:3, and the private commercial undertakings

were allowed to purchase 20-30 percent of the major agricultural and sideline products. In this way, the worries of the capitalists were quickly dispelled and the market began to pick up again.

The movements against the "three evils" and "five evils" dealt a heavy blow at the wanton attack of the law-breaking capitalists and purified the state organs. In the later stage of the movement against the "five evils," a system of workers' supervision over capitalist industry and commerce was established. More orders for processing were placed with the private factories and the scope of unified purchase and marketing of commodities by the state was enlarged. All this not only consolidated the leading positions of the working class and state-owned economy, but also paved the way for the capitalist industry and commerce to accept socialist transformation later on.

Section V Losing No Time to Carry Out Key Construction Projects

During the War to Resist U.S. Aggression and Aid Korea and in the movements to stabilize and stimulate the market and to increase production and practise economy, the People's Government, acting in accordance with the established policies for financial and economic work, lost no time to carry out the most urgently needed key construction projects.

From 1950 to 1952, state financial revenue increased from 6.52 billion yuan to 13.31 billion yuan and 18.37 billion yuan respectively, and appropriations for capital construction within the budget also increased from 1.041 billion yuan to 1.875 billion yuan and 3.711 billion yuan. The investments in capital construction during those three years amounted to 6.627 billion yuan, accounting for 17.3 percent of the nation's total financial revenue, which, according to the exchange rate at that time, was equivalent to 2.3 billion U.S. dollars or 46.39 million *liang* of gold or 3.31 billion silver dollars.

That China, formerly an extremely backward and poor country which had suffered from long years of war, could invest such a large amount of money in construction by relying on its own efforts even before production was completely restored and when the Chinese people were engaged in resisting U.S. aggression and aiding Korea, was not only inconceivable

under the rule of the Kuomintang government but also something seldom known before in many other countries when they began developing their industries.

Priority in economic construction at that time was given to water conservancy and railway transportation. This was because flood and drought prevention was essential to the rehabilitation and development of agriculture, and the restoration of production was impossible without efficient transportation, railway transportation in particular. In addition, the problems of power shortage and supply of raw materials must be solved in order to restore production. Thus it was important to make investments in the power, coal, and iron and steel industries. These heavy industries were mainly in northeast China where the foundation was comparatively good. Though most of the vital equipment was dismantled and moved away after victory was won in the anti-Japanese war, reconstruction and restoration of production on the basis of existing factories in northeast China required less investment and a shorter construction period. In this respect, the conditions were more favourable in northeast China than in places south of the Great Wall.

During those three years, the People's Government allocated about 700 million yuan for water conservancy projects, accounting for more than 10 percent of the budgetary investment in capital construction. Most of China's 42,000 kilometres of dykes were repaired or strengthened, and work on harnessing the Huaihe, Yihe and Shuhe Rivers in east China and the Yongding, Daqing and Chaobai Rivers in north China, which used to flood the surrounding areas, was also undertaken. Effective measures were also taken to control the Changjiang (Yangtze) and the Huanghe (Yellow) Rivers. In accordance with the principle of stressing both flood diversion and water storage, New China began in 1951 the first multi-purpose water conservancy project embracing the entire basin of a river—the harnessing of the Huaihe. Its first-phase work was completed in September that year, thereby removing the constant threat of flood for the people living in the Huaihe River basin and laying the foundation for the full exploitation of the water resources in that region.

While efforts were made to control flood, work on preventing drought was also under way. In those three years, a total of 358 modernized irrigation projects were launched. Among them, the engineering work to divert the

waters of the Huanghe River to the Wei River, one of the large projects, was partially completed, thereby increasing the irrigated acreage by 32,000 hectares. Construction of the Guanting Reservoir, capable of storing 2.2 billion cubic metres of water, started in October 1951. According to incomplete statistics, about 20 million people took part in building water conservancy projects in those three years, and approximately 1.7 billion cubic metres of earth were moved, which was equal to the digging of 10 Panama Canal or 23 Suez Canal.

In the three years from 1950 to 1952, the People's Government allocated 1.77 billion yuan for communications and transportation projects, accounting for 26.7 percent of the total investment in capital construction. With regard to the railways, apart from repairing and improving the existing lines, the government invested large sums in the building of new lines from the second half of 1950. Three new railway lines were completed in the period of restoration of the national economy. They included the 403-kilometre-long Laibin-Munanguan Railway line on the southernmost part of the country. This line, which the Kuomintang government undertook to build for 13 years but failed, was completed in a little over two years and opened to traffic in October 1951. The 505-kilometre-long Chengdu-Chongqing Railway line, whose construction started in June 1950, was completed in only two years, bringing to fruition a dream of 50 years of the people in Sichuan Province. The 355-kilometre-long Tianshui-Lanzhou Railway line, which winds its way across towering mountains in northwest China, was one of the most difficult engineering projects. It crosses the Weihe River several times, passes through scores of tunnels and gullies, and traverses a 180-kilometre-long "bitter water" area. Despite the enormous difficulties posed by this complicated terrain, the soldiers, railway builders and peasant-workers joined hands to complete the line in October 1952, eight months ahead of schedule, thereby opening through traffic from Lianyungang on the eastern seaboard to Lanzhou, an important industrial city in the northwest. The Xingang (New Harbour) in Tanggu, built and expanded in 15 months, was formally open to shipping in October 1952.

Newly built highways, totalling 3,846 kilometres long, were mainly in the remote regions where transportation was underdeveloped, such as Xikang-Tibet highway and the Kunming-Luoyang highway in the southwest, and the Xinjiang-Lanzhou highway and the Xining highway

along the Huanghe River in the northwest. Soon after the liberation of Sichuan Province, the People's Government began the building of the Xikang-Tibet highway (from Ya'an in the former Xikang Province to Lhasa in Tibet). The greater part of this highway was on desolate highland 3,000 to 4,000 metres above sea level, and some sections were over 5,000 metres above sea level, where the temperature was extremely cold, the air was thin and the population sparse. It was an arduous engineering work, but in order to facilitate interflow between the Han and Tibetan peoples and consolidate the frontier regions of our country, the engineering corps of the People's Liberation Army battled together with the Han and Tibetan workers, defied the hardship and danger, and built the highway on the "Roof of the World." In November 1952, the Kangding-Changdu section of the highway was completed and formally opened to traffic.

In the three years 1950-52, investment in heavy industry amounted to 2.16 billion yuan, most of which was used in restoring and upgrading the existing enterprises. More than 3,300 new enterprises were built, 4 percent of which were large and medium-sized ones. Among the expanded and newly built key projects that were completed in the restoration period were the central shaft in the Liaoyuan Coal Mine, the Dongshan No. 1 shaft in the Hegang Coal Mine, the Hlaizhou open-cast mine in Fuxin, the power plants in Fushun and Fuxin, the hydroelectric power station (first stage) in Fengman, and the non-ferrous mine in Tongguanshan. Other projects undertaken included the Anshan Iron and Steel Company's large rolled steel plant, seamless steel tubing mill and No. 8 blast furnace, the aluminium plant (first stage) in Fushun, several coal shafts in Jixi and several power stations in Fulaerji and other places.

While the construction of key projects was going on, the Political Bureau of the Central Committee of the Chinese Communist Party decided at an enlarged meeting in February 1951 on the principle of "three years of preparations and 10 years of planned economic construction," counting from the year 1950. Acting on this directive, the People's Government began making concrete preparations for planned economic construction. As early as 1950, China signed agreements with the Soviet Union on the building of 50 projects (part of the 156 key construction projects) and successively invited dozens of technical groups to help us carry out prospecting and designing work. From 1951 the Central Financial

Commission formulated and made known to the lower levels the annual control figures for industry and transportation and for capital construction; it also began studying and drafting the First Five-Year Plan. In the same year, the various departments also began to set up gradually planned management and administration of capital construction from the higher level downward, organized geological prospecting, designing and construction contingents, and shifted step by step the focus of leading economic work on to capital construction. On November 15, 1952, the Central People's Government decided to set up the State Planning Commission in charge of the unified administration of the national economic plan. Thus the organizational preparations for planned economic construction were completed.

V Development of New Democratic Economy

Section I The Growth of the State Economy

During the new democratic revolution before liberation, state-owned economy already came into existence in the revolutionary base areas. At that time, many small factories and handicraft workshops were built to manufacture weapons and ammunition for the front. Some of them were engaged in smelting iron, refining oil, repairing and building machines, spinning and weaving cloth, and making glass and ceramic ware to meet the needs of both the army and the people in those base areas. The army units and government organizations reclaimed wasteland to build many small farms for production. They also set up independent commercial enterprises and banks in order to carry out economic struggles against the enemy, break the economic blockade and ensure the supply of commodities to the people. These state-owned enterprises played an important role in consolidating and developing the revolutionary base areas. However, they constituted only a very small proportion of the national economy as a whole.

After the founding of New China, they began to grow as never before

as the imperialist privileges were abolished and bureaucrat-capitalist enterprises were confiscated. By the end of 1949 the proportion of state owned industry accounted for 26.7 percent of the total output value of all industries (including handicraft) and 41.3 percent of the total output value of the nation's large industries. The state sector accounted for 58 percent of the country's electricity generated, 68 percent of the output of coal, 92 percent of pig iron, 97 percent of steel, 68 percent of cement and 53 percent of cotton yarn. The state sector of the economy also controlled the nation's railways, most of the banking business and foreign trade as well as the nation's economic lifeline.

The state economy developed further after three years of economic rehabilitation.

Profound changes took place within the state-owned industry. The democratic reforms in the factories thoroughly smashed the old system by which bureaucrat-capitalist enterprises carried out feudal oppression and enslavement of the workers, eliminated the counter-revolutionaries hidden inside the enterprises and the remnant feudal forces, and improved the relations between the staff members and the workers. Following these, factory administrative committees with the participation of worker representatives and workers' congresses were established. Through reforms in production and in the wage system, the old methods of production and technical management were either abolished or readjusted, and the systems of planned management and economic accounting were instituted in accordance with the principle of "from each according to his ability, to each according to his work." The labour insurance system was introduced, and measures were taken to improve the welfare of the workers and staff members, gradually improving their livelihood on the basis of expanded production.

As a result, the socialist relations of production were further improved within state-owned enterprises, the workers' class consciousness and enthusiasm for production soared to an unprecedented high and vigorous labour emulation drives were launched all over the country. In 1950 altogether 688,000 people took part in the emulations and the number increased to 2.38 million in 1951. In 1952 more than 80 percent of the workers and staff members took part in the patriotic emulation movement to increase production and practise economy. During these three years the

workers came up with approximately 400,000 rationalization proposals for improving the performance of the machines, the methods of operation and labour organizations, 60 percent of which were adopted. The upshot was a steady rise in labour productivity. For instance, the labour productivity of the workers in northeast China in 1951 surpassed the pre-liberation peak level by 42 percent, and it further increased by 20 percent in 1952. Take cotton yarn for another example. In 1952 the workers in state-owned enterprises produced on the average 23.3 bales per person, while those in privately owned enterprises produced only 17.7 bales.

At the same time, on the basis of the common interests of enterprises where the means of production were owned by the whole people, the state began to give planned guidance to the production and business activities of all state-owned enterprises in accordance with the interests of the society as a whole. Wherever financial conditions permitted, the government allocated a certain amount of funds to renovate or expand major enterprises and build some urgently needed projects, so as to further expand the state-owned industries. In 1952 there were over 9,500 state-owned industrial enterprises employing more than 5.1 million workers and staff members, and the total value of their assets had increased from 6.89 billion yuan in 1949 to 10.84 billion yuan. The total output value of the nation's industries had in 1952 increased by 145 percent over 1949, or an average of 34.8 percent a year, and the state-owned industries had developed even more rapidly, their output value having increased by 287 percent in three years, averaging 57 percent a year. The proportion of state-owned industries had increased by 41.5 percent. In the output of the means of production, state-owned industries continued to have the upper hand, and in some cases their dominant position was further enhanced. For example, their output of electricity accounted for 88.3 percent, coal 84.6 percent and pig iron 96.4 percent, increasing by 5 to 30 percent respectively. In the case of consumer goods, the cotton yarn and cotton cloth produced by state-owned industrial enterprises continued to make up nearly half of the total output, and the proportion of paper, matches, flour, cigarettes and other important light industrial products turned out by the state enterprises increased by 20 to 30 percent as compared with the past, occupying an important position in the national economy. In communications and transportation, the sector continued to hold absolute predominance in railway transportation, and the proportion of state

enterprises in water and land transportation of goods increased from 43 percent and 21 percent in 1949 to 75 percent and 54 percent in 1952.

After abolishing the imperialist privileges and taking over the Customs, the volume of foreign trade handled by state-run companies accounted for 66.5 percent of the total import and export value, and the amount increased to 93 percent in 1952. In domestic trade, by the end of 1952 the country had set up more than 30,000 state-owned shops, four times the 1950 figure, with a total of 577,000 employees. These state-owned shops, together with the rural supply and marketing co-operatives and the urban consumers' co-operatives, formed a nationwide socialist commercial network with the state-owned commerce playing the leading role and the co-operative commerce as a supplement. The state-owned shops controlled all kinds of important materials produced by the various economic sectors, such as grain, cotton, cotton yarn and cloth, coal, industrial raw materials and equipment, thereby ensuring market supply and stable prices. The proportion of commodities handled by state-owned shops in the total volume of commodities in circulation also greatly increased. Compared with 1950, total retail sales of commodities in 1952 increased by 67.3 percent, while the volume of retail sales handled by state-owned shops went up by 284.6 percent; this enabled the proportion of commodities handled by state commerce in the total volume of commodities in circulation (including peasants' trade) to rise from 6.9 percent to 16.2 percent. The proportion taken up by state commerce in the total wholesale volume rose from 23.2 percent in 1950 to 60.5 percent in 1952. Thus by 1952 state commerce had already controlled the circulation of most social products, basically controlled market prices and, through placing orders with the private enterprises for processing and through the price policy, regulated the production of the capitalist and individual sectors of the economy and initially brought them into the orbit of the state plan.

After achieving a balance between state revenue and expenditure, realizing the management of cash and reducing the interest rate and exchange rate and with the restoration of industrial and agricultural production, the nation's banking business developed rapidly. From March to the end of 1950, the amount of bank deposits and foreign exchange increased six-fold, and bank deposits in 1952 increased 3.8-fold over 1950. As the private capitalist banks were very speculative in nature, some of them

closed down after the prices became stable, and some were reorganized into state-private joint banks. The state banks therefore gradually became the cash, short-term credit and account-settling centres and they controlled 99 percent of the nation's bank deposits. They consolidated the state economy's leading position in the credit system.

As the state-owned enterprises developed steadily, the taxes and profits they handed over to the state gradually became the main source of state revenue. The proportion of money the state-owned enterprises handed in rose from 33.4 percent in 1950 to 58.1 percent of the state revenue in 1952.

Section II Changes in the Individual Economy and the Development of the Collective Economy

As the level of China's productive forces was low and the economy was backward, the small and scattered individual economy accounted for a big proportion of the national economy in the past. In 1949 the individual economy accounted for three-fourths of the total output value of industry and agriculture. In agriculture, the state farms and the rich peasant economy made up only a very small proportion. Most of the grain, cotton, oil-bearing crops, livestock and other daily necessities as well as a good variety of farm, sideline and native products were produced by the individual peasants. In industry, there were about 7 million people engaged in the individual handicraft industry, who produced a considerable part of the consumer goods in daily use and the means of production needed by the people in the cities and countryside; they were also engaged in repair work and other service trades, which were indispensable to the urban and rural people, as well as in the production of traditional arts and crafts. Their output value accounted for 23 percent of the total industrial output value. The pedlars (including those in the catering trade), who were scattered in the residential districts in the cities and countryside, numbered about 6.5 million. Although they accounted for only a small proportion of the total circulation of commodities, they played an irreplaceable supplementary role to the state economy in helping promote the interflow of commodities between the cities and countryside and in providing convenience for the people's livelihood. In addition, there were other individuals, such as longshoremen and porters, who were a force not to be ignored.

After three years of economic rehabilitation, China's individual economy experienced numerous changes.

First, there was a decrease in the proportion of individual economy in the national economy as a whole. Immediately after liberation, the individual economy developed very rapidly with the support of the state economy. Total agricultural output value increased by 48.4 percent in three years, and the total output value of handicraft (except for a few trades, including that producing articles for people who had superstitious beliefs, which had been eliminated) more than doubled that of 1949, approaching the pre-liberation record, with the number of handicraftsmen increasing to 7.13 million. But because modern industry was restored and developed at an even faster speed, the proportion of individual handicraft industry dropped to 20.6 percent of the total industrial output value in 1952 and the proportion of individual economy dropped to two-thirds of the total output value of industry and agriculture.

Second, the individual economy which became independent of the feudal landlord economy and capitalist economy accepted the leadership of the state economy. After the completion of the land reform, the peasants were given land and other means of production and they no longer paid any rental for the land they tilled. After the state economy controlled the financial and commodity market, the individual peasants and handicraftsmen further rid themselves of exploitation by speculators and usurers and established close ties with the state economy.

During the rehabilitation period, the state sector of the economy established ties with the individual producers mainly through purchasing large amounts of their major products, supplying them with the necessary means of production and consumer goods and using prices as a means to regulate their production and business activities. In these business ties, the supply and marketing co-operative was an important form which combined the individual economy with the state-owned economy.

The supply and marketing co-operative was a collective organization formed spontaneously by the individual farmers and handicraftsmen on a voluntary basis in the field of circulation. Its higher level of co-operative organization derived its funds mainly from the state, and therefore served as the best link for the state-owned economy to give leadership to the individual economy. The People's Government adopted the policy of

supporting the supply and marketing co-operatives. In selling goods by wholesale to the co-operatives, for instance, the state-owned trade companies generally gave them a 2-6 percent discount, and when the People's Bank granted them loans, the interest rate was lower than the 10 percent rate required for loans extended to state-owned trade companies. In collecting taxes, the state taxation agencies reduced the co-operative's business tax by 20 percent, and newly established co-operatives were exempted from income tax in the first year. Other state departments also gave the co-operatives various kinds of help. The supply and marketing co-operatives, on the one hand, purchased products on behalf of the state in accordance with the state plan and the price system and, through their supply and marketing business and the contract system, assisted the state in bringing the individual economy into the orbit of the state plan. On the other hand, the supply and marketing co-operatives, in the interests of the farmers and handicraftsmen, promoted the sale of farm and sideline products and handicrafts, supplied manufactured goods for daily use and distributed the profits so gained to the farmers and handicraftsmen according to their shares. This avoided the middlemen's exploitation and was therefore welcomed by the farmers and handicraftsmen.

The supply and marketing co-operatives developed very rapidly. The number of co-op members increased from 25.68 million in 1950 to 138.2 million in 1952 and the total amount of shares increased from 27 million yuan to 224 million yuan. In the same period, 120,000 regular retail shops, 40,000 stalls and mobile retail stores were set up, with their business activities spreading to all parts of the country. Together with the consumers' co-operatives of the urban residents, they formed a huge retail commercial network. According to statistics, compared with 1949, the co-operatives' retail sales increased from 810 million yuan to 5 billion yuan in 1952, and their proportion in the total volume of retail sales also rose from 6.7 percent to 23.8 percent, thus strengthening the leading position of the state economy in the rural areas.

In addition, the credit co-operatives* formed by individual farmers on a

* Credit co-operatives engaged in the credit business in the rural areas by accepting small amounts of deposits from the peasants and granting loans to the other peasants who needed money.

voluntary basis also developed rapidly. There were 2,271 such co-ops all over the country in 1952, or 21 times the 1950 figure. Apart from this, there were also 1,578 credit departments and 16,218 credit mutual-aid teams. With the support of state banks, these collective financial organizations played an important role in helping the farmers solve their financial difficulties, restricting usurious exploitation and guiding the farmers in developing production according to the needs of the state.

Third, the individual farmers practised mutual aid in production on an extensive scale. China's impoverished peasants had the habit of helping one another with labour force and animal power; they also exchanged labour with manpower, large farm tools and draught animals. After the land reform, the farmers' level of production and living standards improved remarkably. The number of poor peasants* decreased from 60 percent to 30 percent; while the number of middle peasants increased from 30 percent to 60 percent. However, the individual farmer economy was still very weak. Only the rich peasants had fairly complete sets of farm tools and adequate funds for production. A survey showed that the poor peasants and hired farm hands had each family an average of only 0.83 hectare of cultivated land, half a draught animal, two-fifths of a plough and one-eleventh of a waterwheel. The middle peasants fared slightly better. But even so, each household had only 1.26 hectares of cultivated land, nine-tenths of a draught animal, seven-tenths of a plough and one-seventh of a waterwheel. Not a single household could afford to buy a complete set of production tools. And they were all short of funds for production. In case of natural and man-made calamities, some peasant households had to sell their land or hire themselves out to the better-off peasants.

The poor and lower-middle peasants came to realize from their personal experiences that they must get organized if they wanted to improve their production conditions. On the basis of this understanding, seasonal, simple mutual-aid teams emerged group after group in the countryside. At the outset some mutual-aid teams were not well organized and a few better-off peasants were still inclined to continue exploitation through the hiring of farm hands. In spite of this and complaints that there were certain defects that violated the principles of voluntariness and mutual benefit, as was

* Here the classification of the peasantry into poor, lower-middle, middle and rich peasants is used to indicate their economic status before land reform.

reported in the press, those peasants who did not have enough draught animals and manpower even though their economic conditions had somewhat improved were still willing to take part in labour-exchange, otherwise they would not be able to till their land. In the old liberated areas in Shanxi Province, some mutual-aid teams, after overcoming the difficulties arising from the shortage of labour power and draught animals, began to take vigorous measures to increase public accumulation, draw up simple production plans, introduce a technical division of labour, expand sideline occupations, and develop the simple labour mutual-aid teams into year-round mutual-aid teams. Some mutual-aid teams joined hands to set up agricultural producers' co-operatives on a trial basis by pooling their land as shares and practising unified management. These mutual-aid and co-operative organizations, run on a trial basis, demonstrated their advantages in the rational division of labour, rational use of the land and scientific organization in production, and they attracted more and more farmers to join them.

In view of the fact that after the land reform the farmers were enthusiastic in both individual management and in mutual aid and co-operation, the Party Central Committee decided to help the get organized and guide them on to the road of common prosperity. At the end of 1951 it adopted the Resolution on Mutual Aid and Co-operation in Agricultural Production (Draft), calling upon Party organizations in various places to actively lead the farmers, to first set up on an extensive scale seasonal and simple mutual-aid teams, and then develop them in a planned way into year-round mutual-aid teams and set up elementary agricultural producers' co-operatives on a trial basis. The resolution correctly laid down the principle of voluntary participation and mutual benefit for the mutual-aid and co-operative movement and the policy of active leadership and steady progress. Since then mutual aid, as a form of organization for the farmers in production, developed rapidly. By 1952 the number of peasant households which had got organized accounted for about 40 percent of the total in the rural areas, four times as many as in 1950. Of these, 8.03 million were year-round mutual-aid teams and 4,000 were elementary co-operatives.

The government also adopted measures to help the individual handicraftsmen get organized. Collective labour was introduced first in the supply and marketing of goods and then in production. The next step was to

set up handicraft workshops so as to steadily improve the techniques and raise productivity. By 1952 there were 3,280 handicraft producers' co-operatives employing 218,000 people, accounting for 3 percent of the nation's total number of handicraftsmen; their output value amounted to 246 million yuan, making up 3.4 percent of the total output value of the handicraft industry.

Section III Reorganization of Capitalist Economy and Emergence of State Capitalist Economy

During the period of rehabilitating the national economy, the national capitalist economy was also restored and later developed to a certain extent. Compared with 1949, the number of privately owned industrial enterprises increased by 21.4 percent in 1952, and the number of their workers and staff went up by 25.1 percent, with their gross output value increasing by 54.2 percent. The number of privately owned commercial enterprises increased by 6.9 percent, and the number of people engaged in these enterprises rose by 2.2 percent, with the volume of retail sales increasing by 18.6 percent.

After the reorganization of the national economy, the private sector of the economy underwent deep-going changes under the guidance of the policy of utilization and restriction.

First, the position of capitalist economy had declined enormously in the national economy. Because of the expansion of the state-owned economy, the proportion of the output value of private industries had dropped from 63.3 percent in 1949 to 39 percent of the nation's gross output value of industry (not including handicraft industry) in 1952. The drop in the proportion of private industries was even greater in some important industrial sectors. Compared with 1949, the proportion of private industries in the output of electricity dropped from 36 percent to 6 percent in 1952; coal, from 28 percent to 12 percent; pig-iron, from 8 percent to 3 percent; flour, from 79 percent to 46 percent; and cotton yarn, from 47 percent to 37 percent. Private shipping and transportation companies used to occupy an important position in the handling of goods; in 1950 they accounted for 52 percent of the goods transported by lighters and 83 percent of the goods transported by trucks, but the figures dropped to 37.4 percent and 66 percent respectively in 1952.

Still greater changes took place in commerce. From 1950 to 1952, the proportion of wholesale trade handled by privately owned commercial undertakings dropped from 76 percent to 36 percent. The proportion of retail sales they handled decreased from 83.5 percent to 57 percent, and their volume of import and export trade plummeted from 33.5 percent to 7 percent.

Second, in the case of capitalist industry and commerce, those enterprises which were beneficial to the national economy and the people's livelihood were restored and later developed, but those which were otherwise weakened and later eliminated. From 1949 to 1952, privately owned heavy industry, factories producing consumer goods for daily use, commercial undertakings, the catering and service trades all grew by a big margin. For instance, the output value of private machine-building, iron and steel, and metallurgical industries all increased by more than five-fold. But enterprises engaged in hoarding and speculation, construction companies that seriously violated the law, bankers, stockbrokers and real estate dealers engaged in speculation, the exploitative trades acting as middlemen, the consumer trades that supplied luxury goods for the exploiting classes and the trades making articles for people with superstitious beliefs were all greatly weakened or eliminated. In addition, some privately owned commercial undertakings that had an important bearing on the national economy, the people's livelihood and economic construction, such as those dealing in cotton, cotton yarn and cloth, timber, cement, grain, salt, coal as well as import and export trade, and especially those wholesale trades, were also weakened or replaced.

Third, the capitalist financial undertakings underwent socialist transformation ahead of schedule and the capitalist industry and commerce began to develop in the direction of state capitalism. The privately owned financial establishments had only a limited amount of capital and they did not absorb a large amount of savings deposits either. But they were most inclined to speculation. In the previous price fluctuations, they played a most active role in stirring up troubles and undermining the market. During the anti-speculation struggle in 1949, the unlawful financial organizations were banned and the private banks were seriously hit. After prices were stabilized in March 1950, the interest rate dropped by a big margin; this compelled the private banks which had all along been engaged in speculation to close down

one after another. Beginning in the second half of 1950, during the readjustment of industrial and commercial enterprises, the People's Bank started the business of accepting deposits from private industrial and commercial enterprises and granting loans to them, and the private banks started joint operations with the People's Bank. After the movements against the "three evils" and "five evils," in December 1952, all the private banks incurred losses and had difficulties in carrying on their business. The state adopted prompt measures and turned them into joint state-private banks, acting as agencies of the People's Bank for certain businesses. In this way, the socialist transformation of private banks was completed.

Apart from a very small number of privately owned enterprises with shares from bureaucrats which were turned into joint state-private ownership, the policy of gradual transformation was adopted towards the capitalist industrial and commercial enterprises because they were beneficial to the national economy and the people's livelihood during the period of rehabilitating the national economy. When industry and commerce were readjusted in 1950, the state, on the one hand, readjusted the state-private relationship and enabled capitalist industrial and commercial enterprises to play a positive role. On the other hand, through the method of making them process goods for the state and accepting state orders, the government brought them into the orbit of the state plan. In this way an elementary form of state capitalism was created. By 1952, the output value of orders placed by the state with private enterprises for processing goods and the unified purchase and marketing of manufactured goods by the state accounted for 56 percent of the total output value of the private factories. In commerce there emerged such forms as buying goods wholesale and making private enterprises retail distributors or commission agents of the state. There were altogether 997 industrial enterprises of joint state-private ownership and their output value accounted for 5 percent of the nation's total industrial output value. Some big shipping transportation companies also became joint state-private enterprises.

Fourth, important changes also took place within the capitalist enterprises and in their administration and management. Capitalist industry and commerce were formerly semi-colonial and semi-feudal in nature. By 1952, they had been basically changed into capitalist industry and commerce under the leadership of the state-owned economy and the supervision of the

workers. They used to develop in a blind way, but now they were basically turned into enterprises which were placed under restrictions and whose scope of business was limited. In the capitalist enterprises, the relationship between the capitalists and workers was still one of exploitation. The capitalists had the right to manage their enterprises and the right to hiring personnel and assigning tasks. But these rights were no longer absolute. They were not only restricted by the laws and decrees of the state, but were also under the supervision of the workers. In distribution, their right was also restricted, that is, they had to take into consideration the interests of the state, the enterprises, the workers and the capitalists themselves.

In short, after three years of economic reforms and reorganization, profound changes took place in China's economic structure. The imperialist, bureaucrat-capitalist and feudal economic relations were completely smashed. Gradually the new-democratic economy was established, with five economic sectors—the state-owned economy, individual economy, privately owned capitalist economy, co-operative economy and state capitalist economy—existing side by side under the leadership of the socialist state-owned economy.

VI Achievements During Rehabilitation Period

Section I All-Round Restoration of the National Economy

From the founding of the People's Republic of China in October 1949 to the end of 1952, the people of the whole country, under the correct leadership of the Chinese Communist Party, conquered serious difficulties through arduous efforts and successfully fulfilled the historical mission of restoring the national economy.

(1) Agricultural production hit an all-time high.

To restore and develop farm production, apart from carrying out the land reform and guiding the farmers to take the path of mutual aid and co-operation, a great deal of work was accomplished.

(a) Building water conservancy projects and overcoming natural

adversities. During these three years, in addition to building the key water conservancy projects already mentioned, the state mobilized the people to build more water conservancy projects to prevent and combat drought. After arduous efforts, the threat of serious flood, which had been a scourge to the Chinese people for thousands of years, began to be brought under control. According to statistics, 8 million hectares in various parts of the country were hit by floods in 1949; the flooded area was reduced to 4.66 million hectares in 1950, and it further dropped to 1.33 million hectares in 1951 and 1952. Meanwhile, the area under irrigation was expanded by 5.33 million hectares. In 1952, the proportion of irrigated land accounted for 19.6 percent of the total area under cultivation. On top of this, water conservancy conditions on an area of 12 million hectares were improved and the threat of drought was removed.

During these three years, 120 million people were mobilized to combat and prevent major plant diseases and insect pests on 36 million hectares of cultivated land. It was estimated that about 15 million tons of grain were thus saved. At the same time, the prevention of animal diseases also was carried out.

(b) Formulating a reasonable price policy. To ensure the production of cotton, hemp and other industrial raw materials, the government, acting in accordance with the production costs in various localities, determined the minimum purchasing prices and rational price parities between cotton and grain and between hemp and grain, so as to ensure the equitable income of the farmers and enhance their enthusiasm for growing industrial crops.

(c) Energetically granting agricultural credits. Between 1950 and 1952, agricultural credits totalling 1.57 billion yuan were extended to the farmers, and the amount granted in 1952 was 530 million yuan, or more than six times as much as in 1950. These loans helped the poverty-stricken farmers tide over their difficulties due to the shortage of draught animals, farm implements, seeds and fertilizers.

(d) Carrying out technical improvement of mass character. Sponsored by the government, new farm implements totalling 349,000 pieces were popularized throughout the country in the three years, thereby improving the quality of farm work. Mass movements were launched in storing compost, applying fertilizers, selecting and soaking seeds, and scientifically preventing plant diseases and insect pests. During those three

years, the area on which fertilizer was applied rose by 15 percent and the amount of fertilizers applied went up by 30 percent in the country. The area sown with fine varieties of grain expanded to nearly 80 million *mu*, and the area sown with fine strains of cotton accounted for well over 50 percent of the nation's cotton fields.

Thanks to the adoption of a series of measures mentioned above, the total output value of agriculture reached 48.39 billion yuan in 1952, registering an increase of 48.5 percent over 1949 or an average annual increase of 14.1 percent. The output of grain amounted to 308.8 billion *jin*, 42.8 percent more than in 1949, showing an average annual increase of 12.6 percent, and this was 11.3 percent higher than in the peak year before liberation. The output of cotton was 26.07 million *dan*, 193.4 percent more than in 1949, showing an average annual increase of 43.1 percent, and this was 33.6 percent higher than in the peak year before liberation. The output of other major crops, with the exception of oil-bearing crops, all surpassed pre-liberation records. The total number of domestic animals in 1952 also exceeded the peak year before liberation.

(II) Industrial production was restored rapidly, and priority was given to the manufacturing of the means of production.

During those three years, the restoration and development of industry was faster than agriculture. The gross output value of industry in 1952 was 34.33 billion yuan, 144.9 percent more than 1949. Of this, the output value of modern industries stood at 22.05 billion yuan, increasing by a big margin and showing an average annual increase of 40.7 percent. As a result, in the total output value of industry and agriculture, the proportion of industry went up from 30 percent to 41.5 percent, and the proportion of modern industries went up from 17 percent to 26.6 percent. The manufacture of the means of production rose by 227 percent, showing an average annual increase of 48.5 percent. The production of consumer goods upped by 114.8 percent, showing an average annual rise of 29 percent. The ratio between the two was changed from 27:73 in 1949 to 36:64. This showed that China's heavy industry, which had a very weak foundation, was strengthened to some extent.

The output of major industrial products all increased by a big margin in the three years. The output of steel rose by 753.8 percent, reaching 1.349 million tons; iron increased by 665.5 percent, amounting to 1.926 million

tons; coal upped by 105 percent, reaching 66.49 million tons; electricity increased by 68.4 percent, totalling 7.26 billion kwh; crude oil went up by 260.3 percent, reaching 436,000 tons; chemical fertilizer went up by 570.4 percent, reaching 181,000 tons; metal-cutting machine tools increased by 768.1 percent, amounting to 13,734 pieces; electric motors went up by 950 percent, totalling 639,000 kw; and cotton yarn increased by 100.7 percent, totalling 3.62 million bales. The output of most industrial products exceeded the peak level before liberation, with increases ranging from 5 percent to 50 percent.

While restoring and developing production, the technical level of industrial production improved greatly in those three years thanks to the reforms in production techniques and technological processes. Take the iron and steel industry for example. All the rails and fine-quality steel products were imported from abroad in old China. But in 1952 China's iron and steel works could produce certain kinds of fine-quality tool steel, silicon steel and steel sheets urgently needed by the machine-building industry, in addition to producing various kinds of ordinary steel plates, steel products and seamless steel tubes. Steel rails were also produced. The rails used for the Chengdu-Chongqing Railway line built during the rehabilitation period were produced in China. The few engineering enterprises in old China were mostly engaged in repairing and assembling. But in the short space of three years during the rehabilitation period after liberation, China could manufacture complete sets of textile machines, various kinds of machine tools, mining equipment and 3,000-kw generating sets.

What was worthy of note was that during the period of restoring China's industry, apart from restoring and building key industrial enterprises in China's northeast and in the coastal cities, a number of small industrial enterprises were also built in the interior, thereby slightly improving the distribution of the nation's industries. In the total output value of industry, northeast and east China accounted for 66.8 percent and the other areas accounted for 33.2 percent. The output and proportion of iron and steel produced in areas south of the Great Wall went up by 30 percent and 41 percent respectively.

(III) Communications and transportation were restored and traffic returned to normal.

Just before and after the founding of New China, the People's Government paid close attention to repairing and restoring the railway lines. Braving the severe cold of winter and the intense heat in summer and in the face of bombing by enemy planes and harassment by bandits, the workers and staff of the people's railways worked together with the railway engineering corps of the People's Liberation Army in 1949 to repair 8,300 kilometres of railways and 2,715 bridges with a total length of more than 90,000 metres. By 1950, a total of 14,089 kilometres of railways were repaired, enabling traffic to reopen on the original railway lines. During the rehabilitation period, new railways were built so as to tap the resources in the interior of our country. They were the Laibin-Munanguan, the Chengdu-Chongqing and the Tianshui-Lanzhou railway lines totalling 1,263 kilometres. In addition, 602 kilometres of the old railway lines that had been abandoned were repaired. By the end of 1952, altogether 24,518 kilometres of railway lines were open to traffic, approaching the longest mileage before liberation.

During those three years, the state also made investments to improve the original lines and raise the speed of the trains. In addition, the situation of decentralized management, with each railway bureau doing things its own way under the rule of the Kuomintang, was changed. In its place, a highly centralized system of management was instituted, which steadily improved transport efficiency. The per-day mileage of freight trains and locomotives increased from 308 kilometres in 1949 to 396 kilometres in 1952. The volume of goods transported by railway was raised year by year. It was 18.4 billion ton/km. in 1949; 39.4 billion ton/km. in 1950; 51.5 billion ton/km. in 1951; and 60.1 billion ton/km. in 1952, surpassing the peak pre-liberation level by 50 percent.

The People's Government also took energetic measures to restore and develop the highways, shipping and civil aviation. The mileage of highways open to traffic increased from 80,768 kilometres in 1949 to 126,675 kilometres in 1952, exceeding the peak level before liberation. Inland navigation increased from 73,615 kilometres in 1949 to 95,025 kilometres in 1952. There were no civil aviation lines in the days immediately after liberation, but in 1952 there were 13,123 kilometres of such lines. The number of trucks increased from 32,000 in 1949 to 44,000 in 1952; and the tonnage of lighters rose from 370,000 tons in 1949 to 530,000 tons.

(IV) Domestic commerce and foreign trade were restored and developed.

During the early post-liberation period, in accordance with the policy of "developing production, bringing about a prosperous economy, facilitating mutual help between the cities and the countryside and promoting internal and external exchanges," the movement of promoting interflow between the cities and countryside was launched on an extensive scale. This steadily expanded the domestic market, and not only were many old commercial circulation channels restored, but numerous new channels and ways of exchange were opened up. Take for instance the regions inhabited by the minority nationalities. Most of them were in the remote mountain areas and frontier regions where commerce was extremely backward. The state-owned trade departments successively set up more than 1,100 retail departments, purchasing stations, processing plants and mobile trade teams in these areas, gave assistance to the co-operatives, united with the legitimate private enterprises to expand the commercial network, helped the minority peoples sell large amounts of their animal by-products and other native and special products, and provided them with the necessary means of production and means of livelihood. All this gave a vigorous boost to the development of industrial and agricultural production in areas inhabited by the minority nationalities. Statistics showed that the volume of commodity circulation increased year by year throughout the country. It reached 27.68 billion yuan in 1952, an increase of 62.3 percent over 1950. The volume of farm and sideline products purchased amounted to 12.97 billion yuan, or 62.1 percent more than 1950; and the amount of agricultural means of production supplied totalled 1.41 billion yuan, an increase of 93.2 percent over 1950.

During the rehabilitation period, foreign trade also made encouraging progress. The total volume of imports and exports reached 6.46 billion yuan in 1952, which was 55 percent more than in 1950. The means of production, such as machines and equipment badly needed for construction, made up a big proportion of the imported goods. Starting from 1950, the unfavourable balance of trade, which had existed for a long time in the past, was put to an end and a favourable balance was achieved in China's foreign trade.

Section II Initial Improvement in the People's Livelihood

The aim of bringing about a fundamental turn for the better in the nation's financial and economic situation was for the interests of the people. With the elimination of the system of exploitation and the restoration of industrial and agricultural production, the material and cultural well-being of the Chinese people began to improve.

(I) Prices became stable. What made the people suffer most in the past was the skyrocketing prices resulting from vicious inflation under the rule of the Kuomintang government. In March 1950 the People's Government basically brought the prices under control and the market remained stable in the ensuing three years. Taking the wholesale price index in March 1950 as 100, it was 85.4 in December that year, 92.4 in 1951 and 92.6 in 1952. And taking the retail price index in Beijing, Shanghai, Tianjin and five other big cities in March 1950 as 100, it was 94.6 in 1951 and 93.7 in 1952. The stable prices on the market, especially the prices of grain, cotton yarn and cloth, and articles for daily use, rid the people of the fear of skyrocketing prices and guaranteed their basic livelihood.

(II) The living standard of the farmers improved markedly. After the land reform, the farmers throughout the country who had no land or were land-poor got 46.66 million hectares of land and other means of production gratis in 1952. Thus they were freed from paying exorbitant land rent to the landlords every year, and they could on the average get an additional 100 to 150 kilogrammes of grain a year per person. Following this, the People's Government led the farmers in developing production and organizing mutual-aid teams. It increased the purchase of farm and sideline products at reasonable prices and supplied the farmers with the necessary means of livelihood and means of production. In addition, it also appropriately reduced the farmers' tax burdens. Statistics showed that compared with 1949, the income of the farmers in various places generally increased by 30 percent in 1952, and the average per-capita consumption level went up by 20 percent. Of this, the consumption of grain was 191 kilogrammes, which was slightly higher than in 1950; edible oil, 1.7 kilogrammes; meat, 5.5 kilogrammes; and cotton cloth, 4.5 metres, all showing an increase of about 50 percent over 1949. Formerly, the farmers could not afford to buy industrial products such as enamel washbasins, glasses and thermos bottles, but these commodities were in common use by 1952.

(III) The number of employed people in the cities increased, and the living standard of the workers and staff improved to some extent. When the country was liberated in 1949, the number of unemployed people in the cities was over 4 million, equivalent to about 50 percent of the workers and staff at the end of 1949. By 1952, about half of the unemployed were given jobs, and proper arrangements were made for the remaining half. With the restoration of production, the ranks of workers and staff gradually grew, and the total number of workers and staff members in the country had increased to 15.804 million by 1952, or nearly twice as many as in 1949.

The wage system left over from the old society was chaotic and unreasonable. Wages in the coastal areas were higher than those in the interior; wages in the light industrial departments were higher than those in the heavy industrial departments; and wages in the enterprises owned by the bureaucrat-capitalists were higher than those in the enterprises owned by the national bourgeoisie. The wages of the workers were very low, but the wages of the office workers, especially those who were the trusted followers of the capitalists, were very high. During the early post-liberation period, the privileges of some office workers were gradually abolished. Wage readjustments were made between different regions and the wages which were too low in some localities were adequately raised. The first wage reform was carried out in 1952, and the calculating unit of wages was unified. A wage scale for the workers and staff members was initially established. The wage grades for the industrial workers were determined according to the importance of the various trades in the national economy, and the degree of technical skill and degree of strenuous labour required. After this readjustment, the wage system gradually became more rational than before. The wage level of office workers was also raised by a big margin. Compared with 1949, the average wage of the workers and staff members in the country was raised by about 70 percent in 1952.

During the rehabilitation period, labour insurance and collective welfare undertakings for the workers and staff were instituted one after another. Beginning in 1950, the labour insurance system was first introduced in the large and medium-sized enterprises each with more than 100 workers and staff members, and the system of free medical service was introduced for government employees and teachers. By 1952, over 3.3 million workers and staff members enjoyed labour insurance, 5.5 times as many as in 1949; and

4 million people enjoyed free medical service. The implementation of these systems freed the workers and staff members from the sufferings and hardships common in the old society due to birth, age, illness, disablement and death. In some enterprises, creches, sanatoriums and convalescent hospitals and other collective welfare undertakings were set up for their workers and staff members.

In addition, in accordance with the principle of safety in production, the state and various industrial departments drew up and promulgated certain rules and regulations concerning labour protection and earmarked special funds for this purpose, thereby improving the working conditions of the workers. Though the state still had difficulties in its finance at that time, the government made arrangements for the construction of a considerable number of houses for the workers and staff. From 1950 to 1952, living quarters with a total floor space of 14.62 million square metres were built, thus improving the living conditions of the workers and staff.

The living standard of the workers and staff was greatly raised as compared with pre-liberation days, thanks to the efforts made by the Party and government. According to investigations, in 1936, the year before the outbreak of the War of Resistance Against Japan, the average annual amount of consumption for each worker (including his or her family members, the same below) was about 140 yuan (calculated according to the 1957 prices, the same below.) This was increased to 189.5 yuan in 1952, showing an increase of 35 percent. Compared with 1950, the savings deposits of the residents in the cities and towns in 1952 had increased by 6.5 times.

(IV) Cultural, educational and public health undertakings developed and the general level of the people's health gradually improved. In 1952, the number of students in the colleges and universities was 191,000, an increase of 63.2 percent over 1949, or 23.2 percent more than the peak year before liberation. The number of students in the secondary vocational schools, regular middle schools and primary schools was 636,000, 2.49 million and 51.1 million respectively, or 66.1 percent, 66.4 percent and 115.8 percent more than the peak year before liberation. Among the students studying in the various schools, the proportion of children of the labouring people had increased rapidly. The state had set up a grant-in-aid system to help them solve their economic difficulties and enable them to enjoy the right to receiving an education. Apart from the regular schools, the factories and mines and other enterprises also paid attention to training their workers and

improving their techniques. This gave a fillip to the rapid development of spare-time education in the urban and rural areas.

In 1952 the number of beds in the hospitals and sanatoriums reached 180,000, an increase of 114.7 percent over 1949, or 172.7 percent more than in the peak year before liberation. Maternity and child-care undertakings made even faster progress. Compared with the peak year before liberation, the number of beds in maternity hospitals had increased by 133 percent in 1952; the number of beds in children's hospitals had increased by 50 percent; and the number of maternity and child-care centres (stations) had risen more than 260-fold. The number of public health personnel in 1952 had increased by 33.3 percent over 1950. Infectious diseases such as cholera and the plague were basically brought under control, and diseases such as tuberculosis which had a high mortality were given effective treatment. Moreover, mass patriotic health campaigns were launched all over the country, thereby creating a clean and fine environment which contributed greatly to a reduction in the incidence of diseases and to the improvement of the people's health.

Section III Main Experiences

On the eve of the nationwide victory of the People's Liberation War, the imperialists vainly hoped that China's insoluble economic difficulties would land it in an impasse. Seeing that the economy was in a mess, many national capitalists also doubted whether the Chinese Communist Party could adequately cope with the situation. But, in only three years, the iron-clad facts proved that the Communist Party and the Chinese people were capable of tackling the difficulties and improving the economy.

In those three eventful years, the People's Government solved numerous contradictions and problems, and accumulated rich experiences in giving guidance to the reform and restoration of the economy.

(I) Resolute measures were taken to eradicate the old relations of production.

In old China, the exploitation and oppression of the broad masses of people by imperialism, feudalism and bureaucrat capitalism had impeded the country's economic development and social progress and constituted the root cause of China's poverty and backwardness. The aim of the Chinese Communist Party in leading the people to accomplish the new democratic

revolution was to smash the reactionary political power, abolish the old relations of production, thoroughly overthrow imperialism, feudalism and bureaucrat capitalism which weighed down like three big mountains on the Chinese people, emancipate and vigorously develop the social forces of production, make the country strong and prosperous and bring happiness to the people.

The founding of the People's Republic of China marked the basic victory of the democratic revolution in the military and political spheres. Economically, however, the tasks of the democratic revolution were far from completed. The landlord class still kept under its control the economy of the vast rural areas in the newly liberated regions; the economic forces of the imperialists and bureaucrat-capitalists had not been eliminated; and the Kuomintang reactionaries were colluding with the United States to impose a blockade and embargo on New China by every possible means in an attempt to smother its economy. If this situation were not completely changed, it would be impossible for the workers and farmers to achieve genuine emancipation and the newborn people's political power would not be able to assert its leadership over the national economy. If this should happen, the restoration of the economy would be out of the question and the people's political power could not be consolidated either. The only solution, therefore, was to thoroughly abolish the old relations of production and emancipate the forces of production that had long been shackled and suppressed.

In the struggle to smash the old relations of production and emancipate the forces of production, we relied on the working class wholeheartedly, expropriated the bureaucrat-capitalist class, eliminated the imperialist economic forces, and abolished feudal oppression in the industrial and mining enterprises. These were the preconditions for the restoration of the urban economy. And to thoroughly eliminate the feudal land system and arouse the initiative of millions upon millions of farmers to restore and develop agricultural production were the basic conditions for a fundamental turn for the better in the nation's financial and economic situation.

Practice since the founding of the People's Republic has further proved that it was precisely because our government resolutely confiscated bureaucrat capital, eliminated the imperialists' privileges in China, relied on the workers to restore industry and communications and put the nation's

economic lifelines under the control of the people's political power that a solid foundation was laid for its economy. When the United States spread the flames of war to the bank of the Yalu River, we not only waged a tit-for-tat struggle against it militarily but also mobilized the masses in the rural areas to carry out the land reform so as to satisfy the peasants' desire for land. In the industrial and mining enterprises, the remnants of the feudal system were eradicated to let the workers become the real masters of their enterprises. All this fired the enthusiasm for production among millions upon millions of people and inspired them to conscientiously take an active part in the mighty patriotic movement to increase production. The result was that despite the extremely difficult financial and economic situation, the country was not only able to shoulder the heavy burden of huge military expenditures but relied on its own efforts to overfulfil the historic task of restoring the national economy.

(II) The problem of national capitalist industry and commerce was correctly solved.

To divide the capitalist class into the bureaucrat-capitalist class and the national bourgeoisie is a creation of the Chinese Communist Party by integrating the Marxist theory with the actual conditions in China. Because China's economy was very backward, the working class must, after leading the people to seize the political power, rationally make use of the positive role of the national bourgeoisie and restrict its negative role while confiscating bureaucrat capital. This was an important policy which had a significant bearing on the rapid restoration and development of our economy.

During the period of rehabilitating the national economy, the industry and commerce of the national bourgeoisie had a dual function: On the one hand, they possessed considerable economic power which might play a positive role beneficial to the national economy and the people's livelihood; on the other hand, since their paramount motive was profit-making and they developed their business in a blind way, engaged in speculation and tried hard to get rid of the leadership of the state economy, they had their negative sides which were not beneficial to the national welfare and the people's livelihood. At that time, the national bourgeoisie stirred up a speculation storm and violated the law by bribery, tax evasion, theft of state property, cheating on government contracts and stealing of economic information

(known as the "five evils"), launching two large-scale attacks against the working class and the state economy. The government dealt a heavy blow at these attacks. But since the national bourgeoisie had worked in co-operation with the Chinese Communist Party in the struggle against imperialism and feudalism and since they still possessed considerable economic power, it was necessary therefore to win over the majority of them and bring into play those economic forces which were advantageous to the national welfare and the people's livelihood so as to quickly restore the national economy. During the rehabilitation period, we adopted the policy of utilizing and restricting the industry and commerce of the national bourgeoisie. On the one hand, through such economic and political measures as drawing up the price and taxation policies and carrying out the anti-five evils campaign, we restricted and combated their activities which were harmful to the national economy and the people's livelihood. On the other hand, through readjusting the relationship between the public and private interests and between the workers and the capitalists, defining the scope of operations and opening such channels as making the private enterprises process goods for the state and accept state orders, we protected their legitimate operations which were conducive to the national economy and the people's livelihood. In this way, the industry and commerce of the national bourgeoisie were helped to develop under the leadership of the state economy, thereby increasing the production of manufactured goods for daily use, facilitating the interflow of goods between the cities and the countryside and between the different regions, enlivening the commodity market, easing the contradiction of unemployment and promoting the restoration of the national economy. Chen Yun said in 1950 that much work was accomplished, with the focus on two major tasks: unification and readjustment. The successful accomplishment of these two tasks ensured stability in the country. Unification meant the unifying of the nation's financial and economic work, which strengthened the state sector of the economy, stabilized the prices on the market, beat back the attacks of capitalists engaged in speculation, and seized the leadership over the market. Readjustment meant readjusting the relationship between the public and private interests and between the workers and the capitalists, with the aim of helping the national capitalists' industry and commerce which were beneficial to the national economy and the people's livelihood tide over their

difficulties. In addition, the national capitalists' industry and commerce were helped to develop under the leadership of the state economy through such means as making them process goods for the state and accept state orders and encouraging individual traders to purchase local products. These efforts helped the national economy overcome all obstacles during the most difficult stage of the rehabilitation period.

(III) The restoration of production was regarded throughout as the key link of all tasks.

In February 1949, Mao Zedong clearly pointed out at the Second Plenary Session of the Seventh Party Central Committee that from the very first day we took over a city, we should direct our attention to restoring and developing its production. Only when production in the cities was restored and developed could the people's political power be consolidated. Thus, as soon as the rural areas were liberated, the people's government did its best to support agricultural production by helping the peasants solve the problem of shortage of the means of production. Similarly, as soon as the cities were liberated, from the first day the personnel of the military control commissions entered the cities, they relied on the working class to restore production as quickly as possible. At that time, large number of army and local government cadres were transferred to the production departments where they worked and learnt the skills of administering the cities and directing economic and production work.

To thoroughly accomplish the tasks of the democratic revolution, our country at that time faced arduous military and political struggles. But political struggle should be closely combined with the restoration of the national economy. The abolition of the old relations of production would undoubtedly promote the development of production, but the measures taken to fulfil this task should be compatible with the actual conditions of each locality and should always give top consideration to the central task of restoring production. For instance, the land reform was not carried out immediately in the newly liberated areas. Instead, while the campaign of clearing up the bandits and suppressing local despots was launched, the landlords were allowed to manage their own land and pay a fixed amount of rent on the basis of a reduction in rent and interest so as not to affect normal agricultural production before the ownership of land was determined. Later when the conditions were ripe, the government used three years to mobilize

the masses in different places to participate in the land reform movement. Even then, the peasants were told not to slacken farm production during the movement.

This was also the case in taking over the bureaucrat-capitalist enterprises in the cities. The first step taken was to change the ownership of the means of production rather than carrying out the all-round reform of the relations of production. And in order not to affect production caused by any feeling of insecurity, nothing was done to the original organization of the enterprises, and the incumbent directors and managers and other responsible personnel were allowed to continue their work and get the same pay as before. Later we spent three years to carry out democratic reforms and improve the wage system in a planned way, thereby basically changing the unreasonable relationships among the people and the irrational distribution system left over by the bureaucrat-capitalist enterprises. Such a process seemed to have slowed down the reform of the relations of production. But because the reforms could in this way proceed in an orderly way and only minor losses were incurred, it was conducive to the restoration of production. From the economic benefits they had obtained, the workers were also helped to truly realize the necessity of changing the relations of production. This, in turn, ensured the smooth progress of the political struggle.

(IV) The state economy had control over the economic lifeline and the country's financial and economic work was brought under unified management.

The socialist economic system was based on the public ownership of the means of production. The consolidation of the leading position of the state sector in the entire national economy was a factor of decisive importance ensuring the gradual and smooth transition from the new-democratic economy to the socialist economy.

In the early days of the People's Republic, the private capitalist enterprises and the scattered and backward individually owned enterprises still existed in large numbers and occupied an important place in the national economy. The law of value, to a considerable extent, spontaneously regulated production, making the national economy unable to get rid of blind competition and anarchism. Without a fundamental change of this situation, it would not only be impossible to effect a successful transition of

the entire economy to socialism, the task of restoring the national economy also could not be accomplished in a smooth way. The key to solving this problem is to firmly establish the leading position of the socialist state economy.

For this purpose, we should first of all have abundant funds and materials as a power backing. Chen Yun said that one condition for the private economy to follow the state economy was for the latter to have considerable strength, otherwise it would not listen to the latter's command. Hence, after the liberation of the cities, our primary economic task was to confiscate the bureaucrat capital which had monopolized the national economy of old China, take control of the nation's finance, do our best to quickly restore railway transportation and the production of the major industrial enterprises, and boost the purchase of major agricultural and sideline products and manufactured goods for daily use by the state trading companies so that the state would have in its hands an abundant supply of materials. These efforts enabled the state economy to gain the initiative in the work of stabilizing the prices and readjusting the nation's industry and commerce.

Second, it was imperative for the central authorities to manage the national economy in a unified way. This meant that, apart from drawing up the principles and policies in a unified way, the central authorities should set up effective and powerful organizations to exercise unified leadership over finance, banking, trade and other major economic activities and allocate and distribute the nation's funds and materials in a unified way according to the importance and urgency of the various tasks in restoring the national economy. Only in this way could the state enterprises scattered all over the country be knitted into an organically unified economic entity from production to circulation, and only in this way could we effectively use our limited funds and material resources.

At that time, there were differing views with regard to the division of administration powers between the central and local authorities under the unified leadership of the central authorities. The history of the three-year period of rehabilitating the economy had proved that under the circumstances in which the private economy still occupied a large proportion, the state sector of the economy was still weak and the country's finance and economy were in an extremely difficult position, it was beneficial

to the whole nation and to the localities as well to put the limited funds and materials under the control of the central authorities. Although the localities had numerous difficulties, the central authorities could allocate and use the funds and materials to ensure the needs of the key projects that had an important bearing on the whole situation and solve the urgent problems in the course of restoring the national economy. Just as Chen Yun said: The more acute the shortage of materials was, the more necessary it was for us to concentrate the materials and use them to the best advantage. We could accomplish several big and important things if we put the limited funds and materials in the hands of the highest authorities. In unifying financial and economic work in 1950, the various localities took into consideration the overall situation and gave full support to the central authorities. This made it possible for the central authorities to exercise a high degree of control over taxation, public grain, cash and materials, which played a tremendous role in bringing about a turn for the better in the nation's finance and economy.

In the three-year movement to resist US aggression and aid Korea, the state at first faced numerous difficulties, including an imbalance between revenue and expenditure and a serious shortage of materials. But, under the unified planning of the central authorities, the principle of putting national defence in the first place, the stabilization of prices in the next place and economic and cultural construction in the third place was resolutely carried out. The result was externally we defeated the US imperialists and internally we stabilized the market and enabled the economy to prosper. In addition, we managed to allocate a considerable amount of funds for the construction of a number of key projects, which constituted a necessary preparation for the smooth implementation of the First Five-Year Plan (1953-57).

Of course, if power was over-concentrated, with little manoeuvrability for the localities, the development of the economy would also be retarded. In March 1951, the central authorities timely adopted the financial system of "dividing income and expenditure and putting management under the government at different levels," so as to mobilize the enthusiasm of the localities and solve the economic problems in the light of local conditions.

(V) Keep an eye on the interrelations of economic activities and do things according to objective laws.

The strength of the political power had an important bearing on the building of the new-democratic economy. Without a people's democratic

political power, there could be no socialist relations of production. However, there were in the economic activities inherent objective laws independent of man's will. Only when the People's Government found out their inevitable interrelations in the complicated, ever-changing situation before deciding on the principles and policies to be adopted and the necessary procedures according to the needs of the objective law could it achieve the best possible results in its economic work.

The sharp rise of prices in 1949 was the result of many factors. The basic reason was the huge financial deficit which called for the issuance of large amounts of currency with the concomitant result of inflation. This being the case, the government could not solve the question of financial deficit if it resorted only to such administrative methods as market control to curb speculative capital. Commodity prices might be stabilized for a time, but they would go up again because of the excess of currency in circulation and the imbalance between supply and demand. In addition, the speculators who had been curbed might again make trouble when they had the opportunity to do so.

Having grasped the law governing the fluctuation of prices, the government issued a series of laws and decrees to strengthen finance and market control, ban speculation and punish the law-breakers. Simultaneously, it undersold large quantities of goods and adopted deflationary measures to combat speculative activities. Following this, it adopted resolute measures to unify the management of financial and economic work and made great efforts to increase revenue and reduce expenditure. In this way, instead of a huge financial deficit, a basic balance between state revenue and expenditure was achieved, and inflation which had lasted many years was checked. The government used only a little more than six months to achieve basic victory in the price struggle and gained the leadership over the market.

In the early days of the People's Republic, privately run industry and commerce and individual peasants and handicraftsmen existed in large numbers, and it was impossible for the government to directly organize their production. Their production and business activities, however, could not be divorced from the market and the law of value (to the privately run industry and commerce, it was mainly the law of surplus value). Therefore, after the state economy seized the leadership over the market and controlled the

industrial and agricultural products closely related to the national welfare and the people's livelihood, the government could guide them to serve the major objective of restoring and developing the national economy, as long as it conscientiously used these laws to work out appropriate policies.

At that time, control was exercised over private industry and commerce in two aspects: the supply of raw materials and the sale of their goods. Moreover, by fixing reasonable fees for processing and prices for the goods, the government allowed them to gain proper profits through normal operations. In this way they were brought, to a certain extent, into the orbit of the state plan.

As to the peasants and individual handicraftsmen, by correctly controlling the purchasing prices of farm produce and handicrafts and the selling prices of industrial goods, the government protected these small producers from exploitation by middlemen and helped them develop production and improve their lives. As a result, they were drawn closer to the state economy. By correctly fixing the price parities between grain and cotton and between grain and hemp, and by regulating the acreage of cash crops, the government succeeded in supplying the industrial enterprises with the agricultural raw materials they needed.

(VI) Importance was attached to expanding the circulation channels, maximizing the role of the market and promoting the interflow of goods between the urban and rural areas.

In the early post-liberation days, owing to the trammels of the reactionary relations of production and the damage caused by years of war, not only had the country's industrial and agricultural production dwindled, the other links of reproduction were either seriously undermined or adversely affected. Of these, the links of circulation (i.e., commodity exchange with currency as the medium) were most seriously affected. At the time, both land and water transportation was at a near standstill and the old relations of commodity exchange and old channels of circulation were thrown into confusion. In addition, the prices were unstable and Renminbi had not yet gained its due credit in the rural areas. All this further impeded the commodity exchange which was far from developed in old China.

At that time there was a serious grain shortage in the cities and industrial and mining areas. Many agricultural, sideline and native products needed by the people were also in short supply; the production of many

industrial goods could not be expanded and, in some cases, had to be cut because of a sluggish market. In the rural areas, the plummeting of the prices of farm produce caused serious losses to the peasants, and as they could not ship out and sell their native products, they could hardly afford to buy the industrial products they urgently needed. Even if they could afford these goods, they were not always available. The many obstructions in the circulation channels aggravated China's economic difficulties and affected the restoration of production. During the rehabilitation period, therefore, attention should not be confined to production only, but should take the entire process of reproduction into consideration and attach primary importance to opening up and expanding the circulation channels, maximizing the role of the market and enlivening the interflow of commodities between the cities and the countryside. Just as Chen Yun said, the expansion of the purchase and marketing of agricultural, sideline and native products was not only a question concerning the rural areas but a key issue to livening up the nation's economy. This was an important experience based on the fact that agriculture occupied an especially important position in China's national economy.

During the period of readjusting the nation's industry and commerce following the stabilization of prices in 1950, the government issued in an organized way a large amount of currency and sent people to the rural areas to purchase farm and sideline products so that the peasants could have the money to buy industrial goods in the cities. This measure in turn helped promote the restoration of industry and commerce in the cities. In 1951, the government gave top priority to the work of stimulating the interflow of goods between the cities and the countryside and did a large amount of work to speed up the circulation of funds and open up the market for the unsalable native products. As a result, the solution of this seemingly unimportant question helped enliven the entire economy. It showed that industry and agriculture and the cities and the countryside could become each other's market. Only when efforts were made to expand their interrelations and promote social reproduction could the development of the national economy be expedited.

Our experience during this period also proved that it was not enough to rely solely on the state economy to expand the channels of circulation. Given its funds, transportation capacity and the number of service centres, state-

run commerce could only shoulder the task of purchasing the bulk of the major agricultural and sideline products and supplying the main industrial goods. It was necessary for the peasants themselves to get organized, with aid from the supply and marketing co-operatives which had been set up all over the country. Furthermore, reasonable policies should be adopted to give full play to the positive role of the private traders and mobilize the economic forces of small businessmen and pedlars so that they could supplement the state economy through multiple forms of exchange. Simultaneously, efforts should be devoted to keeping the communication lines, particularly the trunk lines, unobstructed. The rapid accomplishment of the task of allocating and transporting the country's materials during the period of stabilizing the commodity prices in 1949 and the smooth development of the interflow of goods between the urban and rural areas after 1950 should be attributed to the policy of concentrating large amounts of funds to repair, revamp and build a number of important railways, highways and ports. That transportation and communications should be in the van had, even in the rehabilitation period, been proved to be an important principle in economic work.

Part II

Successful Fulfilment of the First Five-Year Plan (1953-57)

VII The General Line for Transition Period

Section I The Economic Situation in Early 1953

In 1953 China began its socialist construction and transformation in a planned way.

First, planned management was established and strengthened step by step. As early as 1949, the first national economic plan for northeast China was drawn up. The next year the Central Financial Commission worked out the outline of a tentative national economic plan for 1950, and made known to the lower levels the control figures in the plan for the year. In 1951 the commission drew up a tentative annual plan for the development of the national economy and convened a national planning conference to make known the control figures for 1952. The State Planning Commission and the State Statistical Bureau were established in 1952.

Second, enterprise management was instituted and gradually improved. Although the state-run enterprises had carried out democratic reforms and abolished the old relations of production, a scientific management system suited to the requirements of modern production had yet to be established. Beginning in 1951, an economic accounting system was implemented in the state-run enterprises, under which the state set the output quotas, the standard of quality and the variety of products, and indices for productivity and production cost. A general inventory of the warehouses of state-run enterprises was made and a system for finance and cost management was introduced. The enterprises were required to draw up plans in accordance with the state's stipulations, with the directors and managers taking full responsibility for the profits and losses.

Third, the management of capital construction was strengthened. In 1951, separate organizations in charge of capital construction were set up to draw up designing and construction plans and to issue working procedures

in capital construction. Preparations were also made to train a contingent of geological prospecting, designing and construction personnel.

During the rehabilitation period, China's industrial and agricultural production already surpassed the peak pre-liberation level. But owing to the fact that pre-liberation level was very low, the national economy in the rehabilitation period was therefore still backward.

China's industrial level in 1952 was not only below that of the Soviet Union in 1928 but also below that of the people's democratic countries in eastern Europe in their First Five-Year Plan period. This was well illustrated by the proportion of modern industry in the total output value of industry and agriculture in these countries: In 1952 China's industry made up only 26.7 percent of the gross output value of industry and agriculture; the figure was 45.2 percent for the Soviet Union in 1928, 65.5 percent for Poland in 1949 and 75 percent for Czechoslovakia in 1948. The average per-capita industrial output in 1952 for China and a few other countries was as follows:

	Steel (kg)	Electricity (kwh)	Cotton cloth (metre)
China	2.37	2.76	5.4
Soviet Union	164.1	553.5	23.6
United States	538.3	2,949	55.4
Japan	81.7	604.1	

At that time, China was still unable to produce automobiles, tractors, aircraft, heavy equipment and precision machines, neither did it have a modern national defence industry.

After the rehabilitation period, there existed side by side five types of economies in China, namely, state economy, co-operative economy, individual economy of the peasant and handicraftsmen, state-capitalist economy and private capitalist economy. Statistics showed that by the end of 1952, the state-owned economy accounted for 19.1 percent of the entire national income, while the co-operative economy took up 1.5 percent, the individual economy 71.8 percent, the state-capitalist economy 0.7 percent, and the private capitalist economy 6.9 percent. This meant that income from both the socialist and semi-socialist sectors of the national economy made up

less than a quarter of the national revenue, while the individual economy still occupied a predominant position and the capitalist economy also made up a considerable proportion.

At that time, there was the need for the capitalist industry and commerce to develop to a certain extent so as to benefit the national economy and the people's livelihood, but this also inevitably entailed adverse effects. Hence the issue of restriction and anti-restriction.

In the countryside, about 60 to 70 percent of the farmers still had difficulties although the livelihood of the farmers as a whole had improved to some extent after the land reform. This was particularly the case with those poor and lower-middle peasants who had got their share of the land but lacked the other means of production. They had a strong desire for mutual aid and co-operation in production in order to avoid usurious exploitation or to sell and mortgage their land. Mutual aid and co-operation were also conducive to the development of production, the building of water conservancy works and the use of farm machines and other new techniques.

A 1953 investigation made in 16 townships in Hubei, Hunan, Jiangxi and Guangdong Provinces showed that about 10 percent of the farmer households lent money, which was more than double the number in 1952. The rate of interest was 5 percent a month, and in some cases it was as high as 10 percent. An investigation conducted in 143 villages in the Xinxian Prefecture in Shanxi Province revealed that between 1949 and 1952 a total of 8,253 farmer households sold their land and houses. Another survey made in Hubei, Hunan and Jiangxi Provinces showed that in 1953 six times as many households as in 1952 sold their land, and a number of their middle peasants were reduced to poor peasants. The number of farmer households which rented out their land accounted for 12.5 percent of the total, while 18.7 percent of the farmer households had to farm on rented land. Some poor peasants had to hire themselves out and serve as labourers in order to make a living.

That year, grain was in short supply. The rich peasants and some well-off middle peasants refused to sell their grain and did what they could to raise the prices, while some private businessmen seized the opportunity to disrupt the market. Some of them bought grain in advance from the farmers at a price which was 33 percent and sometimes even 50 percent lower than the price set by the state (as in Nancheng, Jiangxi Province). Some set up

purchasing booths in the countryside during harvest time to buy grain from the farmers. As a result, 80 percent of the grain was bought up by the private businessmen. To shun supervision on the market, some went to the countryside themselves or asked their relatives to purchase the grain. Some intercepted the farmers on their way to the market and some even illegally bought and hoarded large quantities of grain in the disaster areas (as in Funing County of Jiangsu Province and Xingyang of Henan Province). All these activities encouraged the farmers to store rather than sell their grain, thus seriously affecting the fulfilment of the state's purchasing plan. In September 1953, only 80 percent of the purchasing plan was fulfilled, but this dropped to 38 percent in October. Another result was the fluctuation of grain price on the market. In the major grain-producing areas such as Hunan, Jiangxi, Henan and Hebei Provinces, for example, the price of grain was generally 30 to 50 percent higher than the price set by the state.

In the cities, private businessmen seized the opportunity to rake in huge profits. In addition to long-distance transportation and sale of grain and hoarding for speculation, they also illegally purchased large quantities of grain supplied by the state. Take the grain market in Tianqiao in Beijing for example. Usually about 50 tons of rice were sold by the state-run stores a day, but on October 31 alone, 165 tons were sold out, of which 125 tons were illegally bought up by private traders.

These private businessmen also purchased by illegal means large quantities of textiles, articles for daily use, hardware and building materials. Many private traders in the cities went to Shanghai and other places to purchase goods, thereby bypassing the state commercial departments. Between January and April 1953, there were as many as 20,000 to 30,000 such traders travelling between the cities. Of the sales on the wholesale market for printed cloth in April, 44 percent were bought by these travelling traders. When hardware and chemical raw materials were in short supply in Beijing and Tianjin, some private wholesale traders travelled to Jilin, Guangdong, Sichuan and Yunnan and even to the little towns in the rural areas to purchase these goods, and then transported them to the big cities to sell at high prices.

Some industrial capitalists also tried to shun the leadership of the state economy by blindly producing and marketing foods on their own. Some of them sold the products the state had ordered or asked them to process on the

free market; others produced and marketed goods on their own instead of abiding by their contracts even when they knew they would be fined in doing so. In the first half of 1953, the total volume of goods produced and marketed by the privately run factories in Shanghai increased by 149 percent as compared with the corresponding period of the previous year. In May alone, there were more than 4,600 instances of delayed delivery of goods by the private factories which had accepted orders from the Shanghai General Merchandise Wholesale Station or had contracted to process goods for it.

That year, the capitalist industrial enterprises garnered a profit of about 910 million yuan, an increase of 147 percent over 1952, and the capitalist commercial undertakings reaped profits to the tune of 690 million yuan, an increase of 97 percent over the previous year. This not only hampered socialist accumulation, but also brought new problems in distribution.

All these indicated that blindness and anarchy in production and management in the capitalist sector of the economy had become a major obstacle to the building of socialism in a planned way.

Section II Putting Forward the General Line for the Transition Period

Just as Lenin said, large-scale industry is the one and only real foundation upon which a socialist society can be built. "Without highly developed large-scale industry, socialism is impossible anywhere; still less is it possible in a peasant country." (*Tenth All-Russian Conference of R.C.P. (B)*, 1921, *Collected Works*, Vol. 32, p. 408) To build socialism in China, it is imperative to gradually accomplish socialist industrialization, build an independent and relatively comprehensive industrial setup and substitute a modern technical foundation for the backward technical basis of its national economy.

However, to realize socialist industrialization, it is necessary to carry out the socialist transformation of agriculture, handicrafts and capitalist industry and commerce and build a socialist economic system with the socialist ownership by the whole people and collective ownership holding the dominant position.

The general line for the transition period was thus formulated and put

forward to meet the objective needs of this social and historical development.

At the Second Plenary Session of the Seventh Party Central Committee held in March 1949, the call was issued to steadily transform China from an agricultural into an industrial country and from a new-democratic into a socialist country.

By the end of 1952, the Party Central Committee, acting upon a proposal by Mao Zedong, set forth the general line for the transition period. The general line stipulated: "From the founding of the People's Republic of China to the basic accomplishment of socialist transformation is a period of transition. During the transition the general line and fundamental task of the Party is to bring about step by step over a fairly long period of time the socialist industrialization of the country and to accomplish, step by step, the socialist transformation of agriculture, handicrafts and capitalist industry and commerce." This general line was formally adopted at the Fourth Plenary Session of the Seventh Party Central Committee. In September 1954, it was adopted by the First Session of the First National People's Congress and written into the Constitution of the People's Republic of China as the state's fundamental task during the transition period.

In essence, this general line was aimed at solving the question of ownership, that is, to transform capitalist private ownership into socialist ownership by the whole people and transform private ownership by individuals into socialist collective ownership.

It took some time for the Party membership to achieve a unanimous understanding of the task and steps of this general line and its profound significance.

Between June and August 1953, the Party Central Committee convened a national conference on financial and economic work, at which discussions centred on the ways and means of implementing the general line for the transition period. The practice of treating "state and private enterprises on an equal footing" in taxation and other shortcomings and mistakes that prevailed in financial and economic work in the first half of 1953 were criticized. The conference not only solved certain problems existing in the nation's work but, more importantly, it helped the whole Party, the whole army and the people of the whole country achieve ideological unanimity.

VIII The First Five-Year Plan

Section I Basic Tasks of the First Five-Year Plan

The basic tasks of the First Five-Year Plan were: (1) to concentrate the nation's main efforts on the construction of the 156 projects designed with the help of the Soviet Union and 694 big and medium-sized industrial projects so as to lay the initial groundwork for socialist industrialization; (2) to foster the growth of agricultural producers' co-operatives, whose system of ownership is partially collective, and handicraft producers' co-operatives so as to lay the initial foundation for the socialist transformation of agriculture and handicrafts; and (3) to bring capitalist industry and commerce basically into the orbit of various forms of state capitalism so as to lay the groundwork for the socialist transformation of private industry and commerce.

The First Five-Year Plan included the following concrete tasks:

(I) Establishing and expanding the power, coal and oil industries; establishing and expanding modern iron and steel, non-ferrous metals and basic chemical industries; establishing machine-building industries for the manufacture of large metal-cutting machine tools, power generating sets, metallurgical equipment, mining machinery and motor vehicles, tractors and aircraft.

(II) Building the textile and other light industries as well as new medium-sized and small industrial enterprises serving agriculture so as to meet the urban and rural people's growing needs for articles in daily use and agricultural means of production.

(III) Bringing the productive potential of existing industrial enterprises into full play. The production quotas for heavy and light industries during the First Five-Year Plan were fulfilled mainly by relying on the existing enterprises.

(IV) Relying on the poor peasants (including those poor peasants who had become new middle peasants), firmly uniting with the middle

peasants and using the methods of persuasion, providing good examples and giving state assistance to promote the co-operative movement in farm production. It was planned that, within the five years, one-third of the farmer households across the nation would join the elementary type of agricultural producers' co-operatives. It was expected that in the northeastern provinces, Shanxi, Hebei, Shandong, Henan and other old liberated areas, half of the farmer families would be brought into these co-ops and efforts were made to bring about co-operation first in areas where the cultivation of crops required high techniques and in the outlying districts of the cities.

On this basis, efforts were made to carry out elementary technical improvements in agriculture and raise the per-unit yield, reclaim wasteland and enhance the state farm's exemplary role. All this was for the purpose of ensuring further progress in agricultural production, grain and cotton production in particular.

Attention was paid to water conservancy and afforestation, and measures were taken to carry out water and soil conservation on an extensive scale.

Animal husbandry and aquiculture were developed and the output of special farm products was raised.

(V) Developing transport and posts and telecommunications, particularly the construction of railways. At the same time, inland and ocean shipping was developed and highways, civil aviation and posts and telecommunications were expanded. The plan envisaged that by 1957 the turnover of railway freight transport would increase by 101 percent over that of 1952, the turnover of railway passenger transport would rise by 59.5 percent, and the volume of inland shipping and highway freight transport would increase by 321.5 and 373.5 percent respectively.

(VI) Gradually organizing individual handicrafts, individual transport enterprises and independent small businesses into various forms of co-operatives in the light of their specific conditions.

(VII) Continuing to consolidate and extend the leadership of the socialist economy over the capitalist economy; gradually increasing the number of joint state-private enterprises, strengthening the work of making the private industries process goods for the state and accept state orders and increasing state purchases of the products of private enterprises; and steadily

turning the private commercial enterprises one after the other into agents of state-run and co-operative commerce working on a commission basis or into retail distributors of their commodities at fixed prices. It was estimated that the socialist transformation of the entire national economy would be completed in about 15 years.

(VIII) Ensuring market stability, keeping a balance between revenue and expenditure, developing the exchange of goods between the cities and rural areas and between China and other countries, and expanding commodity circulation; enforcing the planned purchase and supply of certain principal industrial and farm products whose output lagged behind demand.

(IX) Developing culture, education and scientific research and actively training personnel needed in national construction, particularly industrial construction.

(X) Practising strict economy, combating waste, increasing the accumulation of funds so as to ensure national construction.

(XI) Gradually improving the material and cultural well being of the working people. In these five years, the average wages of the workers and staff members would rise by about 33 percent. The peasants' living standards would also be further improved and the purchasing power in the rural areas in 1957 would double that in 1952.

(XII) Strengthening mutual help and co-operation among the people of various nationalities in the economic and cultural fields, and developing the economy and culture of the minority nationalities in the country.

In the light of the above-mentioned tasks, the main targets for the First Five-Year Plan were as follows:

Capital Construction. A total of 42.74 billion yuan was allocated in the five years for capital construction. Of this amount, 24.85 billion yuan, or 58.2 percent of the total investment, were for the industrial departments. In these five years 694 projects were built or expanded. If those projects in farming, forestry, water conservancy, transport and communications, posts and telecommunications, culture, education and public health were included, a total of 1,600 big and medium-sized projects were built. In addition, there were over 6,000 smaller projects.

The plan for capital construction during the five years was, on the one hand, to make rational use of the existing industrial bases in the northeast

and in Shanghai and other cities, and put the stress on the reconstruction of the northeast China industrial base with the Anshan Iron and Steel Complex as the centre. Of the 694 above-norm industrial projects, 222 were located in northeast China and the coastal areas; in particular, nearly half of the 156 key projects for civilian use were in the northeast. On the other hand, the plan called for the building of new industrial bases in north, northwest and central China, including the two new industrial bases of the Wuhan and Baotou Iron and Steel Complexes. Industrial construction was also to start in part of southwest China.

Total Industrial and Agricultural Output Value. It was planned that the total industrial and agricultural output value would increase by 51.1 percent from 1952's 82.71 billion yuan to 124.99 billion yuan in 1957, with the annual increase rate averaging 8.6 percent. Of this, it was planned that the total industrial output value would rise from 27.01 billion yuan in 1952 to 53.56 billion yuan in 1957, with an average annual increase of 14.7 percent. The total output value of handicrafts was planned to rise from 7.31 billion yuan in 1952 to 11.77 billion yuan in 1957. The total output value of agriculture and sideline occupations was to increase by 23.3 percent from 48.39 billion yuan in 1952 to 59.66 billion yuan in 1957, with an average annual increase of 4.3 percent. The output of grain and cotton was to increase by an average of 3.3 and 4.6 percent a year respectively.

Of the total industrial output value, a relatively rapid rate of development of 18.1 percent annually was arranged for state-run industries. During these five years, the planned proportion of state-owned to private industries was as follows: State-run industries would rise from 52.8 to 61.3 percent; co-operative enterprises were to increase from 3.2 to 4.4 percent; and joint state-private enterprises would rise from 5 percent to 22.1 percent. The combined share of these three types of industries in the total industrial output value would increase from 61 percent to 87.8 percent. Though the proportion of private industries would decrease to a certain extent, their output value still registered an increase.

Circulation Volume of Social Commodities. It was planned that the volume of social commodities in circulation would amount to 49.8 billion yuan in 1957, or 80 percent over that of 1952. Owing to the change in the proportion of state-run commerce to private commercial enterprises, it was planned that state-run commercial undertakings would account for 20.5

percent of the total volume of social commodities in circulation in 1957 as against 15.8 percent in 1952, and co-operative trade would account for 34.4 percent in 1957 as against 18.2 percent in 1952. The two would combine to account for 54.9 percent of the total volume of circulating social commodities in 1957, and the proportion of private commerce would dwindle.

Education. In these five years, existing colleges and universities would be reorganized and expanded, and 60 new institutes of higher learning would be set up, so that by 1957, China would have 208 institutions of higher learning. Total enrolment was to reach 543,000, and by 1957 Chinese colleges and universities would have a total student body of 435,000. Secondary technical and vocational schools were to enrol 1 million students during these five years, and by 1957 there would be 672,000 students studying in these schools. A total of 10,000 students would be sent abroad for further studies and 11,000 students would be sent abroad for practical training. Regular middle schools were to enrol 7.12 million students, and in 1957 they would have a total student body of 4.707 million. Primary schools would enrol 53.26 million pupils, and in 1957 there would be a total of 60.23 million pupils at school.

Section II Some Problems in Drafting the First Five-Year Plan

The drafting of the First Five-Year Plan began in spring 1951, but was finished several years later. Causes for this delay were many. Among them were the lack of experience and necessary data on natural resources and related statistics, the complicated nature of the different sectors in the national economy, the War to Resist US Aggression and Aid Korea which began in winter 1950 and continued until July 1953 when an armistice was signed, and the fact that the major portion of the 156 projects to be built with the assistance of the Soviet Union — the second batch of 91 projects — was not finally decided until May 1953. (Agreements on the first batch of 50 projects were signed between the two governments in 1950.) After repeated discussions, the drafting of the First Five-Year Plan was completed in February 1955. In March that year, the plan was adopted at the National Conference of the Chinese Communist Party, and in July of the same year it was formally adopted by the First National People's Congress at its Second Session.

Several problems had to be solved in drafting the plan.

(I) The scale of construction.

On the whole, the First Five-Year Plan called for large-scale capital construction in industry and transport, which was quite appropriate under the circumstances of that time. Take the iron and steel industry for example. In these five years, iron-smelting capacity was to increase by 2.8 million tons and steel-making capacity was to be raised by 2.53 million tons. This, plus the efforts made to tap the production potential of existing iron and steel plants, would boost China's output of pig iron by 2.4 times from 1.9 million tons in 1952 to 4.67 million tons in 1957 and raise steel output by 3.1 times from 1.35 million tons to 4.12 million tons in the same period.

This rate of development was unimaginable even in industrially developed capitalist countries. It took the United States, the world's most developed industrial nation, 23 years to bring about a 66 percent increase in its steel output, from 57.34 million tons in 1929 to 95.38 million tons in 1951. And Japan, the most developed country in the East, took 12 years to increase its steel output by nearly 200 percent from 1929 to 1940. Thus it could be said that the scale of construction in China's iron and steel industry was by no means small. Moreover, apart from the iron and steel industry, in those five years China also undertook large-scale construction in the other industries and in transport.

It goes without saying that the output and variety of heavy and light industrial products envisaged in the First Five-Year Plan were far from adequate considering the nation's needs. However, in determining the scale of construction we should not only proceed from the needs, but should also take into consideration the actual possibilities.

First, financially, 42.74 billion yuan were earmarked for investment in capital construction for the various departments, accounting for 55.8 percent of the nation's total planned expenditure of 76.64 billion yuan for economic construction and for the development of culture and education. That was a rather high proportion. It would be difficult to allocate more funds for economic construction and cut national defence and administrative expenditures.

Second, technically, Chinese engineers and technicians at that time were still unable to independently design large and intricate factories and mines. In 1952, there were only 148,000 student-technicians and technicians

with higher qualifications in the state-run industrial and transport enterprises and in the geological and civil engineering departments, accounting for only 4.5 percent of the total number of 3.3 million workers and staff in these enterprises. This pointed up the extreme shortage of technical personnel needed in socialist construction.

Third, there was the problem in the supply of equipment. Owing to China's weak foundation in the machine-building industry, great difficulties had to be overcome in order to manufacture the ancillary equipment needed in the 156 key construction projects included in the original plan and the equipment needed in a number of other medium-sized and small construction projects. To further expand the scale of capital construction, therefore, would be impractical. All these showed that, in drafting the plan, the actual conditions must be taken into consideration.

(II) The arrangement of investment.

Of the total investment of 42.74 billion yuan in capital construction, the breakdown was as follows: 24.85 billion yuan, or 58.2 percent, for industrial departments; 3.26 billion yuan, or 7.6 percent, for farming, forestry and water conservancy departments; 8.21 billion yuan, or 19.2 percent, for transport and communications and posts and telecommunications departments; 1.28 billion yuan, or 3 percent, for trade, banking and materials storage departments; 3.08 billion yuan, or 7.2 percent, for culture, education and public health departments; 1.6 billion yuan, or 3.7 percent, for urban public utilities; and 460 million yuan, or 1.1 percent, for other purposes. This was an appropriate arrangement which would ensure the smooth progress of the state's 694 large and medium-sized construction projects, the 156 key projects in particular. Of the investment in the various departments, that for agriculture seemed to account for only a small portion of the total. But the fact was that in addition to the 2.68 billion yuan earmarked in these five years for capital construction in agriculture, there were the 2.84 billion yuan allocated by the state for agricultural, water conservancy and forestry departments, 300 million yuan for land reclamation by the army corps, 1.06 billion yuan for rural relief work and the 1.52 billion yuan of additional state loans for agriculture in the five years, totalling 8.4 billion yuan. The peasants themselves also invested about 10 billion yuan for expanded reproduction. Thus the amount of funds for agriculture was still very impressive.

In the industrial field, light industry accounted for a much smaller por-

tion of the investment than heavy industry, the ratio being 1:9. In drafting the First Five-Year Plan, due attention was given to the fact that the output of light industrial goods could not be increased by a big margin. This was because the people's purchasing power was low after the war and light industrial goods could not possibly sell well. But more importantly, it was due to the lack of raw materials, which in turn affected the utility rate of the equipment. In 1951, the equipment utility rate for flour mills was 37 percent; cigarette factories, 47 percent; match factories, 40 percent; rubber shoes factories, 34 percent; oil-pressing plants, 28 percent; and paper mills, 62 percent. Therefore, even if investment in light industrial departments was increased and their equipment capacity raised, the output of light industry could not be increased in the absence of a big increase in the supply of raw materials from agriculture and heavy industry.

(III) The rate of growth.

When an outline of the five-year plan was first drafted, an excessively quick progressive rate of increase of 20 percent a year was arranged for industrial production, of which state-run industrial enterprises were to increase by an average of 24 percent a year. The growth of industrial production during the 1950-52 period actually surpassed that rate, but that was achieved when the national economy was still in the stage of restoration. It was difficult, however, to keep such a high rate of growth during the national construction period. After repeated calculations were made, an average annual growth rate of 14.7 percent was decided, which was rather practical. Of this rate of increase, 70 percent was to be achieved by tapping the potential of existing enterprises, and the remaining 30 percent would come from newly built enterprises.

With regard to agricultural production, the plan at first called for a progressive rate of 7 percent of increase, which was rather high. This was due to an over-estimation of the farmers' enthusiasm for production and the favourable conditions of mutual aid and co-operation after the land reform in the countryside, while the many unfavourable conditions constraining China's agricultural development were not given due consideration. Later, when the plan was being revised, appropriate readjustments were made, keeping an eye on the fact that the country had failed to fulfil the major agricultural production targets for the two consecutive years of 1953 and 1954.

Finally the growth rate for total agricultural output value was fixed at the average of 4.3 percent a year, 38 percent lower than the original plan.

Section III Relying Mainly on Our Own Efforts and Making External Assistance a Supplement

The First Five-Year Plan envisaged a total expenditure of 76.64 billion yuan on economic construction and the development of culture and education, equivalent to 700 million *liang* of gold. Spending such a colossal sum on economic construction was unprecedented in Chinese history. But where was such a huge amount of money to come from?

In solving the question of funds, our country adhered to the principle of relying mainly on our own efforts and making external assistance a supplement.

During the First Five-Year Plan period, of the total state revenue of 135.49 billion yuan, foreign loans accounted for only 2.7 percent. This showed that our country relied mainly on our own accumulations to solve the question of funds needed in economic construction. In August 1952, when China began considering the first five-year construction plan, it was clearly stated that funds were to come from the following four sources. First, production would be raised in a planned way and costs reduced so as to increase the revenues of state-run industry and commerce. Second, industrial and commercial taxes would be levied on private capitalist industry and commerce. Third, farm production would be expanded so as to increase the agricultural tax. Fourth, appropriate reductions would be made with regard to administrative expenses.

Specifically, financial revenue came mainly from the state sector of the economy, which was 18.52 billion yuan during the period of economic rehabilitation and would be raised to 91.46 billion yuan during the First Five-Year Plan period, with its proportion increased from 50.5 percent to 69.4 percent.

Apart from agricultural tax, the state also obtained a certain amount of funds from the peasants by means of the "scissors" difference in price in the exchanges between industrial and farm products. This was another important source of funds for construction during the First Five-Year Plan

period. During that period, industry accounted for 44.5 percent of the state revenue while agriculture accounted for only 14.9 percent. Actually, contributions from agriculture were greater than this amount. For example, light industry relied on agriculture for 80 percent of the raw materials it needed and its profits, too, mainly came from the rural areas. This showed that the state actually used the leverage of prices to channel part of the national income created by agriculture into industry, thereby speeding up industrialization.

The state also issued bonds to increase construction funds. From 1954 to 1957, economic construction bonds were issued on four occasions, totalling 2.75 billion yuan, outstripping the planned figure by 350 million yuan. In the meantime, energetic efforts were made to encourage savings deposits in both the urban and rural areas so as to make up for the shortage in construction funds. By the end of 1952, savings deposits in both the cities and rural areas totalled approximately 1.9 billion yuan, and the amount soared to 3.8 billion yuan at the end of 1957.

The problem of construction funds aside, there was also the problem of competent personnel needed in construction.

The First Five-Year Plan needed an additional 300,000 technicians of various levels in the fields of industry, transport and communications, geology and civil engineering, 570,000 skilled workers in industry, 450,000 skilled workers in capital construction, and 80,000 skilled workers in transport and communications. To solve this problem, a major measure was to train the needed competent personnel in the colleges, secondary and elementary schools and at the same time organize those technicians not doing technical work to return to their posts.

Self-reliance does not exclude assistance from friendly countries and people, and genuine assistance is always based on equality and mutual benefit. Shortly after the founding of the People's Republic of China, the Soviet Government led by Stalin signed the Treaty of Friendship, Alliance and Mutual Aid with China and gave our country tremendous support and assistance.

In May 1953, after negotiations between the two countries, the Soviet Government decided to help China build or transform 141 major enterprises (including the 50 enterprises on which agreements were signed in 1950). In October 1954, the two sides agreed to add 15 more enterprises and expand

the scope of equipment supply for the 141 enterprises formerly agreed upon. This was what was commonly referred to as the 156 projects to be built with Soviet aid.

To enable Chinese personnel to operate the newly built or revamped enterprises efficiently, the Soviet Union helped train Chinese technicians, and Chinese students were sent to study in Soviet universities and colleges or do specialized field work in Soviet enterprises to acquire the necessary skills in carrying out economic construction. During the five years, the plan was to send about 10,000 students to study in the Soviet Union, the German Democratic Republic, Czechoslovakia and other countries. And in accordance with the needs in capital construction, factory directors, technicians and skilled workers were to be sent to these countries in a planned way to acquire experience in practical work.

Soviet loans to China, including those used to purchase Soviet military equipment and material in the war to resist US aggression and aid Korea, totalled 1.406 billion roubles.

In 1955 China began to repay the loans and credits extended by the Soviet Union and the People's Democracies in eastern Europe with large quantities of mineral products and farm produce. To start repaying foreign debts so soon was something uncommon among the developing countries.

IX Orderly Progress in the First Three Years

Section I Adoption of the Policy of Planned Purchase and Marketing by the State

The economic situation in 1953 was, generally speaking, good. But the strain in grain supply was increasingly being felt.

That year China began implementing its First Five-Year Plan for the development of the national economy. The population in the cities and towns as well as in the industrial and mining areas grew rapidly, totalling 78.26 million, 6.63 million more than in 1952. In the meantime, 100 million

peasants in the countryside were short of grain resulting from the expansion of acreage sown to cash crops and natural disasters. That meant the state had to supply grain to nearly 200 million people in both the rural and urban areas. As a result, net grain sales in 1953 jumped 31.1 percent from 46.78 billion *jin* in 1952 to 61.32 billion *jin* (1 *jin* equals 0.5 kilogramme). Though natural disasters were quite serious in 1953, grain output registered a 2.95 million-ton rise over that of the previous year. Output, however, fell far short of the growing needs. Moreover, speculation by private merchants aggravated the serious shortage in grain supply.

Grain was the most important commodity in stabilizing the market and ensuring the smooth progress of construction. However, it was a complicated job to solve the grain problem at a time when several types of economies existed side by side, especially when small-scale peasant economy held an important position and there was sharp contradiction between state planning and the spontaneous tendency of the farmers.

The basic methods to tackle these problems were: the levying of agricultural tax in kind and the purchase of grain by the state in the rural areas; the rationing of grain in the cities; strict control over the private merchants; and the readjustment of internal relationships. In November 1953 the Government Administration Council promulgated an order on "Implementing the Planned Purchase and Planned Supply of Grain."

The major points of the policy of planned purchase and marketing of grain by the state were: (1) the planned purchase of grain from rural households which had a surplus of grain (called planned purchase for short); (2) the planned supply of grain to people living in the cities and to those living in the rural areas who were short of grain (called planned marketing for short); (3) strict state control over the grain market and over private industrial and commercial enterprises connected with the grain business; and (4) adoption of the policy of division of responsibility between the central authorities and the local governments, under the unified administration of the central authorities, with regard to control over grain.

Through planned purchase, the state acquired a sufficient amount of commodity grain, and through planned grain supply, the state had control over the amount of sales on the market. By means of tight control over the grain market under the unified administration of the central authorities, the state was able to cope with the free market and speculators.

The system of planned purchase and marketing by the state was also applied to edible oils and oil-bearing crops. In September 1954, the state began the planned purchase of cotton as well as the planned purchase and supply of cotton cloth.

Because of loopholes in the grain supply system, more grain was sold in the cities and towns than planned, and waste was quite widespread. In some places, there was the anomaly of grain being shipped from the urban areas back to the countryside.

To consolidate the gains of planned purchase and marketing of grain by the state and solve the problems existing in the work, the State Council published two documents in August 1955—"Provisional Regulations Governing the Planned Purchase and Marketing of Grain in the Countryside" and "Provisional Regulations Governing the Rationing of Grain in the Cities and Towns."

The basic contents of the former document were: fixing the amount of grain output and fixing the quotas of purchase and marketing. Fixing the amount of grain output meant fixing grain output for each household based on an appraisal of per-unit yield in a normal year and with due consideration for the soil fertility and natural and farming conditions. Fixing the quotas of purchase meant purchasing grain from families with a surplus according to a certain ratio after deducting the amount for the family members and for seeds and animal feed. The state would raise the purchasing quotas for households (or co-operatives) which reaped a rich harvest. For families (or co-ops) where grain output was reduced due to natural disasters, the state would, in light of the severity of their losses, appropriately reduce the purchase quotas, or exempt them from selling any grain or, if need be, supply them with grain according to a plan. Fixing the marketing quotas meant fixing a certain amount of grain to be sold to grain-poor families; the amount was to be checked and fixed once a year.

The "Provisional Regulations Governing the Rationing of Grain in the Cities and Towns" stipulated that grain was to be rationed among the people in the cities and towns according to their ages and trades and that grain would be supplied according to fixed quotas to meet the needs of industry and commerce. In addition, a coupon control system for some commodities was instituted. These regulations further strengthened planning with respect to grain supply in the cities and towns.

In October 1957, the State Council promulgated the "Supplementary Regulations Concerning the Planned Purchase and Marketing of Grain." The document required that, on the basis of fixing the amount of grain output and fixing the quotas of purchase and marketing, surpluses from a rich harvest year should be set aside to make up for shortages in a lean year so that normal purchases of grain by the state could be ensured; it also required that grain sales be kept under strict control.

The policy of planned purchase and marketing of grain by the state yielded remarkable results.

First, it eased the contradiction of supply falling short of demand, ensured the needs of the state and the people's daily life, and helped stabilize the market and maintain social order. The first month the policy came into force, the state began to bring about a change in the situation in which grain purchases could not keep pace with the amount of sales. That month 38 percent more grain was purchased as compared with the same month of 1952. In the 1953-54 grain year, state purchases of grain increased by 80 percent over the previous year, while sales rose only 33 percent. Using only one-third of the amount of grain purchased, the state ensured grain supply for over 100 million peasants who were short of grain. The sales of grain in the cities and industrial and mining areas remained stable.

In Beijing, monthly flour sales dropped 30-40 percent after grain rationing was instituted. By June 1954, the amount of grain in the state storehouses rose by 50 percent over that of the same month in 1953. That year China was hit by the worst flood in a century. But as the state had enough grain on hand for the stricken areas, the grain prices remained stable. The phenomenon of the old days that the "grain prices would rise along with the floodwaters" was gone for ever.

The policy also quickened the pace of socialist transformation. Planned purchase and marketing of grain by the state severed the ties between the urban and rural bourgeoisie and the farmers and brought the state sector of the economy into close co-operation with the peasants. The introduction of a reasonable ratio between the amount of grain purchased by the state and the amount kept by the farmers themselves helped curb blindness in production and brought farm production within the framework of the state plan. At the same time, because private retail traders and private industrial enterprises had to rely on the state economy for the supply of goods and raw

materials, the influence of capitalist economy on the market was weakened. And this facilitated the socialist transformation of capitalist industry and commerce.

Section II Widespread Setting Up of Elementary Agricultural Producers' Co-operatives on a Trial Basis

In the period of rehabilitating the national economy, the movement for mutual aid and co-operation in agriculture developed quickly in the countryside. At that time, there were only mutual-aid teams, an elementary type of co-operation in agriculture. Beginning from 1953, the socialist transformation of agriculture was stepped up.

In February 1953, the Central Committee of the Chinese Communist Party made partial revisions on the "Resolution on Mutual Aid and Co-operation in Agricultural Production," which was distributed in draft form in 1951 to the Party committees at various levels for trial implementation.

To guard against and correct such deviations as rash advance and formalism in the movement for mutual aid and co-operation, the resolution pointed out that the method to be followed should be: first set up typical examples and then popularize them step by step.

In accordance with the guideline of the resolution, the various localities overhauled the mutual-aid teams and co-operatives. With regard to those agricultural producers' co-operatives which were set up before the conditions were ripe, they were changed into mutual-aid teams after persuasion and education among the peasants. A number of mutual-aid teams and co-operatives amended their rules and regulations. After these readjustments, the movement for mutual aid and co-operation developed in a healthy way.

An outstanding feature in the development of this movement in 1953 was: mutual-aid teams of a temporary and seasonal character developed into year-round mutual-aid teams, and on this basis efforts were made to organize and turn these teams into elementary agricultural producers' co-operatives characterized by the pooling of land as shares. In 1953 the number of these co-operatives had increased to 15,000 or 3.8 times that of 1952, and 4.7 times as many farmer households had joined them. At the same time, the

percentage of households participating in the year-round mutual-aid teams had increased from 25.2 in 1952 to 29 in 1953. Surveys made in some areas showed that the output of 80 to 90 percent of this elementary type of co-operatives set up in 1953 was 10 to 20 percent more than that of the ordinary mutual-aid teams in the locality.

In December 1953, the Party Central Committee promulgated the "Resolution on the Development of Agricultural Producers' Co-operatives," stressing that the principles of voluntary participation and mutual benefit, the setting up of typical examples for the others to follow and appropriate state assistance must be followed. The Party committees at various levels were urged to give active leadership to the development of these co-operatives, not to let things drift and guard against rash advance. The publication of the resolution gave impetus to the rapid development of the movement for agricultural co-operation with the setting up of elementary agricultural producers' co-operatives as the core.

This rapid development notwithstanding, the number of farmer households that had joined the agricultural producers' co-operatives in 1953 accounted for only 0.2 percent of the total farmer households in the country. To run these co-ops well, therefore, was of great significance in attracting more farmers to join the co-ops. To achieve this, the state gave various kinds of energetic support to consolidating and developing these co-operatives.

First, extending technical help in agricultural production. Compared with 1952, the number of two-wheeled double-shared ploughs supplied in 1954 by the various industrial departments in support of the co-operative movement increased 11.8-fold; chemical fertilizers, 3.6-fold; and "666" pesticides, 4.8-fold.

In addition, in order to popularize the use of new types of farm implements and scientific and technological knowledge, sum up and exchange the experiences gained in increasing output in the various localities and train agrotechnicians and bookkeepers, key agrotechnical stations were set up at the county level throughout the country in 1953. The following year the number increased to 4,549, or 25.2 percent more than in 1953, and the staff members increased to 35,000, or 26.2 percent more than in 1953. According to statistics, the number of co-operatives under the guidance of these agrotechnical stations in 1954 accounted for 10 percent of the total number of such co-operatives in the country. A survey made by 87 stations

in Shandong Province showed that the co-ops given technical help had increased their farm output by an average of 20-30 percent as compared with the ordinary co-ops in the locality.

Second, extending necessary financial help. In 1953, investment in agriculture accounted for 9.7 percent of the nation's total amount of investments, and investment in water conservancy accounted for 6 percent. Agricultural loans also increased year by year. By the end of June 1953, agricultural loans had increased by 180 percent compared with the corresponding period of 1952, and in 1954 there was an increase of 111.8 percent over 1953, and in 1955 there was an increase of 125.3 percent over 1954.

In extending these loans, the state gave preferential treatment to the co-ops. The interest on such loans was reduced in June 1952, and there was another decrease in October 1953. Monthly interest on loans for side-line occupations also dropped from 1.5 percent to 1 percent. The state also gave special treatment for loans used in replenishing the co-operatives' equipment.

Third, helping the co-ops improve their production management in the early stage of the co-operative movement. In April 1954, the Ministry of Agriculture issued the "Circular Concerning the Training of Cadres for Agricultural Producers' Co-operatives." According to incomplete statistics, from the winter of 1954 to the spring of 1955, the various localities in the country helped the newly founded co-ops train about 500,000 accountants and provided assistant accountants for the various units at the district level.

Fourth, the supply and marketing co-operatives and credit co-operatives helping the farmers free themselves from exploitation by profiteers. By 1954, there were more than 30,000 rural supply and marketing co-ops throughout the country, constituting an important force in speeding up the socialist transformation of agriculture. The credit co-ops, which were socialist collective organizations under the leadership of state banks, played an important role in restricting the activities of usurers in the countryside. By the end of June 1955, more than 80 percent of the townships across the country had set up 153,000 credit co-operatives, with more than 6,800 peasant households participating, or approximately 60 percent of the total number of farmer households in China.

When the elementary agricultural producers' co-operatives were

formed, the private ownership of the means of production was not abolished. The farmers still owned the land which was pooled as shares and put under the unified management of the co-operatives. The farmers were given dividends according to the amount and quality of their land. This was a suitable measure which conformed to the consciousness of the farmers and the level of development of the productive forces at that time, and thus gave a fillip to production.

In the period from the winter of 1953 to the first six months of 1955, the movement for mutual aid and co-operation in agriculture made tremendous headway. Especially after the autumn harvest in 1954, agricultural co-operatives sprang up all over the country. Just before the autumn harvest in 1955, the number of such co-ops had increased to 634,000, which was 41.3 times the number in 1953, and the participating farmer households numbered 16.92 million, or 61.5 times the figure in 1953. The percentage of the households in the co-ops increased from 0.2 to 14.2, and the average number of households per co-op increased from 18.2 to 26.7. More than 90 percent of the newly formed agricultural co-ops were developed from mutual-aid teams.

At that time, agricultural producers' co-operatives of the advanced type, which had been set up on a trial basis in selected places, were gradually popularized in other places where the conditions were ripe, after the experiences gained were summed up and perfected. By 1955, there were 529 agricultural co-operatives of the advanced type as against 15 in 1953, and the participating households numbered 40,000 as against 2,000 in 1953. In the 630,000 co-operatives of elementary type, 80 percent had increased their grain output.

In the course of steady progress, the movement also encountered small twists and turns. In the spring of 1955 when too many agricultural co-operatives were organized at an unduly rapid speed, violations of the principle of voluntary participation and mutual benefit had occurred to varying degrees in some places. Some co-ops encroached on the interests of the middle peasants because their land was not properly evaluated in terms of grain output and their draught animals and farm tools were undervalued when converted into money.* And in some co-operatives, the production management was in a mess because of the lack of experience on the part of the cadres. In some places, the peasants clamoured for withdrawal from the

co-ops, and they killed their draught animals, felled the trees and sold their farm implements. In view of this situation, the Party Central Committee issued the "Circular on Rectifying and Consolidating the Agricultural Producers' Co-operatives" in January 1955. And in March the Party Central Committee and the State Council jointly issued the "Urgent Directive on Making Immediate Arrangements for the Purchase and Marketing of Grain and Reassuring the Peasants' Enthusiasm for Production."

At the same time, in his talks with responsible members of the Rural Work Department of the Party Central Committee, Mao Zedong put forward the principle of suspending the development of agricultural co-ops, reducing or adequately increasing their number in the light of different conditions in different areas. They also decided to slash a number of co-ops in Zhejiang and Hebei Provinces and develop a number of co-ops in some other areas. Following this, the Rural Work Department of the Party Central Committee issued the "Circular on Consolidating the Existing Agricultural Producers' Co-operatives," calling on the various provinces and prefectures to draw up concrete plans according to their own conditions. In May that same year, Mao Zedong reaffirmed this principle at a conference convened by the Party Central Committee and attended by the secretaries of 15 provincial and municipal Party committees. Acting on this principle, Zhejiang Province slashed 15,000 agricultural co-ops and consolidated 40,000 others.

As a result of these measures, mistakes in encroaching on the interests of the middle peasants were corrected, the once intense relationship between the middle peasants and the poor peasants was eased, and the farmers' enthusiasm for production was restored. The cadres' understanding of the Party's policies was also enhanced.

* Evaluating the draught animals and farm implements and converting them into money. In the early stage of the elementary agricultural producers' co-ops, the farmers rented out their draught animals and large farm implements to the co-ops which paid them a certain amount of remuneration. When the co-ops developed and boosted their economic conditions, they evaluated the draught animals and farm tools and, with the farmers' consent, turned them into the collective property of the co-ops by paying the farmers a certain sum of money. These and other means of production were thus turned into collective property at reasonable prices and the money interests were paid in instalments to the farmers.

Section III Gradual Establishment of Handicraft Co-operatives

During the period of restoring the national economy, handicraft co-operatives were organized on a trial basis in such trades as cotton goods, knitwear, iron and wooden farm tools, and building materials which were closely connected with the national welfare and the people's livelihood. By 1952, altogether 3,280 such co-ops had been formed. As to the other trades, producers' co-operative groups were formed, which got their supply of raw materials from the state and sold their products to the state commercial establishments.

In 1953, the movement to organize handicraft co-ops developed on an extensive scale.

In November 1953, the All-China Federation of Co-operatives convened the Third National Conference on Handicraft Co-operation, at which the basic experiences gained in this work since 1949 were summed up and plans for the step-by-step socialist transformation of the handicraft industry were put forward. The conference pointed out that the individual handicraftsmen should be guided and educated to gradually transform their private ownership of the means of production into collective ownership through the co-operative movement. It also stressed the need to gradually transform the scattered and individual small production into collective production and to achieve mechanization or semi-mechanization in production step by step. Active leadership was needed in the socialist transformation of handicrafts, which should proceed steadily from handicraft producers' co-operative groups* to supply and marketing co-operatives** and then on to handicraft producers' co-operatives***. That meant the transformation was to proceed from supply and marketing, and move forward from small co-ops to bigger ones, and from an elementary form to an advanced type so as to gradually accomplish the necessary reforms in production.

In June 1954, the Party Central Committee approved the conference's report and issued the directive on "Strengthening the Leadership over the Handicraft Industry." The people's governments at various levels were urged to regard handicraft as an important component part of the local industry, set up organizations as soon as possible to supervise the handicraft

industry, and establish step by step federations of handicraft co-ops at different levels. In November that year, the Central Administrative Bureau of Handicrafts was formed under the State Council, and corresponding bureaus (sub-bureaus or sections) were set up under the people's governments at various levels. Thus, an administrative system of leadership over the work was established.

By the end of 1953, there were 4,629 handicraft producers' co-operatives, employing 271,000 workers, or 3.5 percent of the total number of handicraftsmen in the country. The output value of these co-ops was 486 million yuan, or 5.3 percent of the total output value of handicrafts in China. A year later, the number of these co-ops had increased to 11,741, with 596,000 people on their payroll, accounting for 6.7 percent of the total number of handicraftsmen in the country. Their output value was 856 million yuan, or 8.2 percent of the total output value of handicrafts in China.

Many branches of the handicraft industry had close relations with the big industries in the supply of raw materials, in the marketing of products

*Handicraft producers' co-operative group: An elementary form in the socialist transformation of handicrafts, it was a co-operative organization formed by handicraftsmen on the basis of voluntary participation and mutual benefit. Generally, the elected group leader would on behalf of the collective negotiate with state-owned enterprises or supply and marketing co-ops on buying raw materials, selling products or accepting orders for processing goods. This helped the group's members solve the difficulties arising from scattered management and rid themselves of middlemen's exploitation by commercial capitalists. These co-operative groups retained the members' private ownership of the means of production, and each member continued to engage in independent production and scattered management, and was responsible for his own profits or losses.

**Handicraft supply and marketing co-operative: This was a transitional, semi-socialist economic organization in the co-operative movement from co-operation in supply and marketing to co-operation in production. It was formed by the supply and marketing co-operative groups or independent handicraftsmen on the basis of voluntary participation and mutual benefit. Its main task was to exercise unified leadership and management over the supply of raw materials and marketing of products and acceptance of state orders for processing goods, while production was still carried out independently by the members themselves.

***Handicraft producers' co-operative: This was an advanced type of collective economic organization in the co-operative movement. Socialist in character, it was also formed on the basis of voluntary participation and mutual benefit. Apart from paying a certain amount of membership fee, the co-op members had to hand in their major farm tools and equipment and other means of production which were then turned into the collective property of the co-op. These tools and equipment were evaluated, and the money was paid back to their former owners. The members participated in collective productive labour and received wages according to the principle of "to each according to his work."

and in other fields of co-operation. And the relationship between handicrafts and agriculture and commerce in the various localities was also complex and many-sided. Following the development of socialist construction and socialist transformation, the contradictions in supply and marketing between handicrafts on the one hand and big industry, agriculture and sideline occupations on the other and between the handicraft co-ops and individual handicraftsmen became increasingly conspicuous. Quite a few handicraft co-ops could not buy enough raw materials, nor could they sell their products, thereby seriously affecting normal production. The situation was even worse with the individual handicraftsmen.

To resolve the above-mentioned contradictions, the Fourth National Conference on Handicraft Co-operation was convened in December 1954, at which the experience gained in the co-operative movement over the past year was summed up. The conference held that overall reasonable arrangements should be made for handicraft production with regard to the sources of supply of raw materials, the variety and quantity of products, the places for selling these products as well as labour force, and that these arrangements should be incorporated into the local plans. The conference set forth the main task of the socialist transformation of handicrafts in 1955 as follows: Making investigations so as to get a better understanding of the general situation of the main branches of the handicraft industry and, according to the importance and urgency of each case, drawing up plans for the supply of raw materials, production and marketing of products and for the arrangement of labour force. This would pave the way for socialist transformation in a planned way and with a clear objective in mind, and the existing co-ops and co-operative groups would thus be consolidated and raised to a higher level.

In May 1955, the Party Central Committee approved the report submitted by the conference and pointed out that the various localities and departments, the local industrial departments, in particular, must take the arrangements and transformation of handicrafts into consideration in their overall arrangements for the industries of the various economic sectors. The plans of the handicraft departments, first of all the plans concerning supply, production and marketing, should be gradually incorporated into the local industrial plans so as to gradually overcome, through planned balance, the contradiction between the big industries and handicrafts, between the

various branches of the handicraft industry, between the organized handicraft co-ops and individual handicraftsmen, and between handicrafts and other trades in supply, production and marketing.

After the conference, federations of handicraft co-ops were set up or improved at various levels, which helped strengthen the planned balance between supply, production and marketing as well as the arrangement of work for the different branches of the handicraft industry. On the basis of the investigation made in 1954, the various localities made further investigations on such major branches as the making of iron and wooden tools, tailoring, cotton weaving, tanning, arts and crafts; and in the light of the actual situation of each case, arrangements were made for developing or restricting these trades or incorporating them gradually with the other trades.

The co-operative movement in handicrafts developed quickly in 1955. The number of handicraft co-ops reached 20,928 that year, nearly double the figure of the previous year. They employed 976,000 workers, or 11.9 percent of the total number of handicraftsmen in the country. Their output value was 1.301 billion yuan, accounting for 12.9 percent of the country's total output value of handicrafts.

Incomplete statistics showed that the proportion of value of the products sold by the handicraft co-ops through the state-owned commercial departments and the supply and marketing co-ops rose from 78.8 percent in 1952 to 85 percent in 1954. Figures in 1955 showed that the annual output value of the co-op members averaged 1,970 yuan per person, which was 85 percent higher than 1,060 yuan for each individual handicraftsman in the same period. The annual output value of the members in the 415 mechanized and semi-mechanized handicraft co-ops was on the average 5,444 yuan per person, nearly treble the amount of each co-op member who worked manually in the corresponding period.

Section IV Joint State-Private Operation of Individual Enterprises

In the early post-liberation years, the state began turning capitalist industrial and commercial establishments into state capitalist enterprises

through such elementary forms as placing orders for processing and manufacturing goods or planned purchase and marketing of their products. After the general line for the transition period was put forward, work on the socialist transformation of capitalist industry and commerce was unfolded in a planned and all-round way.

To meet the needs of national construction and people's livelihood, the local governments, beginning from 1953, improved their planned guidance over privately owned factories and strengthened their administrative supervision and unified management over the work of placing state orders with the private enterprises for processing goods. Many localities drew up regulations concerning this work and put them into practice. They had unified control over the distribution and allocation of such orders, the examination of contracts and supervision over the fulfilment of assigned tasks. In 1953, the value of such state orders rose to 61.8 percent of the total output value of privately owned factories as against 56 percent in 1952.

Through placing orders for processing goods, the state basically controlled the supply of raw materials and the marketing of the manufactured goods of capitalist industry. But the enterprises still belonged to the capitalists, and their production and business management were still capitalist in nature. Therefore, in these enterprises the contradictions between the state and private interests, between the labourers and capitalists and many other contradictions arising therefrom could not be effectively resolved.

An advanced form of state capitalism was joint state-private operation of individual enterprises. Under this form, the state invested in the privately owned enterprises and sent cadres to be in charge of the management, with the original owners or their representatives also taking part in the management. As to the distribution of profits, the capitalists received their portion according to their shares, while the rest went to the state treasury.

During the period of rehabilitating the national economy, there were a number of joint state-private industries. By the end of 1952, there were 997 joint state-private industrial enterprises all over the country. They employed 240,000 workers and staff members and their output value amounted to 2.013 billion yuan, making up roughly 11.5 percent of the combined output value of the privately owned and joint state-private industrial enterprises.

In 1953, the United Front Work Department under the Party Central

Committee submitted a report entitled "Some Questions Concerning Utilizing, Restriction and Transforming Capitalist Industry and Commerce" to the Party Central Committee. The report summed up the experiences gained in this field in the past three years, and pointed out that the institution of joint state-private operation was the most suitable method to transform the capitalist private ownership of the enterprises.

From the summer of 1953 onward, while systematically and gradually expanding the scope of placing orders for processing goods and purchase and marketing of the products of private enterprises, the state began to press ahead with the work of turning private industries into joint state-private enterprises and gradually make this the major form of transforming capitalist industrial enterprises.

In January 1954, the central authorities approved the report submitted by the Central Financial and Economic Commission on "Transforming Capitalist Industrial Enterprises Employing More Than Ten Workers Into Joint State-Private Enterprises in a Planned Way." A plan for expanding joint state-private enterprises in 1954 was mapped out. The first batch included 500 comparatively big privately owned factories and mines each with an annual output value of 1.7 billion yuan. At the same time, concrete policies were mapped out on making an inventory of assets and determining the shares, defining the position and functions and powers of the representatives of the capitalist owners. It was also decided in principle that in the distribution of profits, the dividends and bonuses for the capitalist owners would be one-fourth of the total.

In September 1954 the State Council formulated and promulgated the "Provisional Regulations for the Joint State-Private Industrial Enterprises," which stipulated that the change-over of capitalist enterprises to joint state-private ownership must be based on the needs of the state, the possibility of transforming these enterprises and the voluntariness of the capitalists. In transforming the capitalist enterprises and putting them under joint state-private operation, the checking up of assets and capital must include all the original property, so as to prevent the dispersal of assets. In evaluating the enterprise's original property, the principle was: Be fair and reasonable and with due consideration for the actual conditions. The joint state-private enterprises were placed under the leadership of the state, and were jointly managed by the representatives sent by the government

departments concerned and the representatives of the capitalists. As for the original staff members, they should be given employment in the light of their abilities and original posts. The annual profits of the joint state-private enterprises were to be divided in four parts according to the 1953 state regulations concerning the profits of the privately owned enterprises: 30 percent was paid to the state as income tax which took the form of progressive taxation; 10-30 percent was for the enterprise's accumulation fund; 5-15 percent went to the enterprise's reserve fund for awards; and 25 percent was paid to the capitalists as dividends and bonuses. This method of dividing the profits curbed, to a certain extent, the capitalists' exploitation of the workers.

By the end of 1954, the number of joint state-private industrial enterprises had increased to 1,746. Although they constituted only 1 percent of the total number of the privately owned and joint state-private industrial enterprises in the country that year, they employed 533,000 workers and staff members, accounting for 23 percent of the total work force in both the jointly owned and private enterprises, and their output value amounted to 5.086 billion yuan, or 33 percent of the total output value of the jointly owned and private enterprises. As production in the jointly owned factories developed and more orders were placed by the state with the private factories for processing goods, the proportion of goods the privately owned factories produced and marketed themselves dwindled drastically, from 38.9 percent in 1952 to 14.4 percent in 1954. This showed that capitalist industrial enterprises, whose output value accounted for one-third of the total and whose workers and staff accounted for one-fourth of the total work force, had been put under joint state-private operation by the end of 1954. The proportion of the output value of joint state-private factories in the total industrial output value rose from 5 percent in 1952 to 12.3 percent in 1954, while that of privately owned factories dropped from 38.6 percent in 1952 to 24.9 percent in 1954, and their total output value was 21.1 percent less than in 1953.

In 1954, altogether 905 privately owned factories were transformed into 793 joint state-private enterprises, most of which being large and important enterprises closely connected with the national economy and the people's livelihood. In Shanghai and Tianjin, 45 of the 92 privately owned factories with more than 500 workers and 121 of the 712 private factories

with more than 100 workers were put under joint state-private operation. Those included the Anda Cotton Mill, the Dalong Machinery Plant, the Zhengtai Rubber Factory, the Dazhonghua Rubber Factory and the Sanyou Industrial Company in Shanghai and the Beiyang Cotton Mill, the Hengyuan Textile Mill and the Huabei Chemical Plant in Tianjin.

The year 1954 witnessed comparatively rapid progress in the socialist transformation of capitalist industry. With the expansion of the socialist economy and the growing needs of planned construction in the national economy, the weak points inherent in the capitalist economy and its contradictions with the developing planned construction became increasingly obvious. For example, as production in the joint state-private enterprises developed quickly, their profits increased, the workers' political status and wages were raised and their welfare improved considerably. This inevitably affected the initiative of those working in the private factories, resulting in more strained relations between the workers and capitalists.

Meanwhile, with the steady increase in the proportion of the state sector in the entire national economy and the continuing expansion of the scope of state control over industrial raw materials and products, a number of private enterprises had difficulty in maintaining production due to the lack of raw materials. Especially after the big enterprises were put under joint operation, the small and medium-sized factories encountered greater difficulties than before, and some of them were prepared to close down or suspend production.

From the second half of 1954, private industries faced serious difficulties. These included the machine-building, electrical machinery, knitwear, flour processing, oil-pressing, canning, tanning, fountain pen and tailoring industries. Shanghai, Tianjin and other old industrial bases along the coast were the areas which had the greatest difficulty, as the private industries in these places used to develop in a blind way; their equipment was outdated and they were generally overstaffed. On top of all this, local industries began to burgeon in the inland provinces and autonomous regions after liberation, adding to the difficulty of the private enterprises in the old industrial bases.

In April 1955, the central authorities approved the report entitled "Concerning the Planning Conference on Expanding Joint State-Private Industrial Enterprises and Concerning the Convening of the Forum on

Privately Owned Industry and Commerce," and circulated the document among the departments concerned. The report pointed out that in expanding joint state-private enterprises, joint operation of individual enterprises should be developed together with joint operation by whole trades. The report also criticized certain ideological deviations in the work of transforming capitalist industry and commerce, such as paying attention only to developing the state-owned economy to the neglect of giving leadership to the private enterprises, stressing only squeezing out and restricting capitalist industry and commerce and disregarding the work of transforming them. Taking into consideration the characteristics that China's capitalist industrial enterprises were scattered, backward and unevenly developed, the report set forth the principle of "overall planning and all-round arrangement."

In accordance with this principle, concrete measures were taken with regard to the private industrial enterprises. (1) Investigations of the production and equipment of the various kinds of factories were conducted and arrangements were made for the production of whole trades according to the needs of national construction and people's livelihood on the basis of products. (2) A certain amount of raw materials and part of the production tasks of state-owned factories were allocated to some private enterprises to help them continue production and later switch to the manufacture of new products needed by the state and the people. (3) The old industrial bases and equipment in Shanghai, Tianjin and other places were utilized and the building or expansion of factories was put under control. At the same time, due attention was given to the planned development of industries in the inland provinces. (4) Step-by-step reorganization and transformation of private industries were carried out through such form as joint state-private operation, amalgamation or moving the factories to other cities. Those which could not carry on production and at the same time had no conditions for transformation were closed down and their workers were transferred to the state-owned or jointly operated factories. (5) Closer relations between the industrial and commercial departments were established and better planning was instituted for placing orders for the processing of goods, thereby reducing blindness in production. (6) Organizations for leading the work of privately owned factories were set up at the central and local levels. Industrial bureaus for the various trades were set up in the big cities, with

division of responsibility between them and each exercising control over the state-owned, jointly operated and private enterprises of the same trade.

As a result of these arrangements in the first half of 1955, capitalist industry basically shook off its plight in production and management. In the meantime, state capitalism also made much headway. Compared with 1954, the number of joint state-private industrial enterprises rose from 1,746 to 3,193 in 1955; the workers employed in these factories jumped from 533,000 to 785,000, their total output value increased from 5.086 billion yuan to 7.188 billion yuan, and the proportion of their output value in the combined output value of jointly operated and privately owned enterprises grew from 33 percent to 49.7 percent in 1955.

In the joint state-private enterprises, the ownership of the means of production was no longer in the hands of the capitalists but was shared by both the state and the capitalists. As the enterprises were basically under state leadership, the workers were to a great extent no longer wage-labourers creating profits for the capitalists but, together with the representatives sent by the state, actually became the leading force in the enterprises. In the joint state-private enterprises, the socialist economic sector held the dominant position. The state was therefore able to control the entire production and circulation processes and bring them into the orbit of state planning. These joint state-private enterprises were to a large extent socialist in nature.

The change in the relations of production in these state-private enterprises greatly enhanced the workers' enthusiasm for production. The state's investment in expanding and revamping these enterprises further raised their labour productivity. Statistics showed that the labour productivity of their workers rose by 118 percent from 1950 to 1952, and by 214 percent from 1950 to 1955, and labour productivity in the enterprises under joint operation was generally double that of the privately owned enterprises.

By 1955, of the total output value of the jointly operated and privately owned enterprises, that part derived from the goods produced and marketed by the private enterprises themselves constituted only 9.2 percent, that part obtained from orders placed by the state for processing goods made up 41.4 percent, and the portion from jointly operated enterprises made up 49.7 percent. This showed that most of the capitalist industrial establishments had been transformed into state-capitalist enterprises and that state

capitalism in China at that time had moved from a lower to a higher form.

While bringing about the transformation of capitalist industry, the state carried out the socialist transformation of capitalist commerce in a planned and systematic way, first the transformation of wholesale commerce, followed by that of retail sales.

Wholesale dealers bought goods from the factories, farmers and handicraftsmen and sold them to the other factories, retail dealers or pedlars. They served as the key link in circulation and played an important role in pricing and in the relationship between supply and demand on the market.

The several big price fluctuations in the early post-liberation days and the intensification of the contradiction between supply and demand in 1953 were all whipped up by wholesale dealers. Investigations made in the municipalities directly under the central government and in the cities under the jurisdiction of provincial governments at the end of 1953 revealed that there were 36,000 private wholesale dealers employing nearly 198,000 persons. Although the number of these dealers was not big, they had in hand about 460 million yuan, which was quite a big amount. Thus they occupied an important position in private commerce.

From the second half of 1953, the state began to adopt various measures to restrict the activities of private wholesale dealers and put into practice the policy of replacing them. In August that year, business tax was again levied on private wholesale dealers. The next month saw the restoration of unified control over purchases in Shanghai, Tianjin and other big cities by government organizations, enterprises and undertakings. This prevented private merchants from dealing in large amounts of goods. In November that year, the planned purchase and marketing of cereal and edible oil by the state was enforced, and in September, 1954 this was applied to cotton. Following this, the state extended the scope of planned purchase and compulsory purchase of agricultural and sideline products. In the cities, planned supply of coal, iron, rolled steel and other important industrial raw materials was introduced. Thus, the state-owned and co-operative commercial enterprises replaced the big wholesale dealers in handling these raw materials.

Statistics from Shanghai, Tianjin, Beijing, Guangzhou, Wuhan, Xian and Chongqing showed that from the second half of 1953 to the first half of 1954, altogether 1,400 private wholesale dealers were replaced; they had a

combined capital of nearly 43 million yuan and employed 11,000 persons.

In order to better utilize and transform private wholesale dealers, those who were allowed to continue their business acted on behalf of the state-owned or co-operative commercial establishments. As to those who had the conditions to shift to other lines of business, they were encouraged to divert their funds and employees to other productive trades. As to those who could not continue their business, the state-owned or co-operative stores would employ them as workers.

At the end of August 1955, there were only 40,000 wholesale dealers with small shops and 80,000 travelling dealers, and most of them dealt in sundry goods. The proportion of their business transactions only constituted 4.4 percent of the total wholesale trade on the market. Thus it could be said that the transformation of private wholesale dealers was basically completed.

As regards the private retail dealers, the state adopted the policy of combining making arrangements for them with transformation and followed the method of socialist transformation by whole trades. Investigations made in August 1955 showed that of the 2.827 million private retail dealers in the whole country, only 102,000 or 3.4 percent, were commercial capitalists, while small traders and pedlars made up the overwhelming majority.

The transformation of private retail dealers started in 1953. First of all, those dealing in grain, edible oil and cotton cloth were transformed to become retail distributors of commission agents of the state. Following this, private commercial establishments dealing in pork, coal, salt, cigarettes, wine and liquor were transformed by the whole trade. By 1955, of the 700,000 retail distributors, state commission agents and wholesale buyers from state-owned enterprises, about 8,600 had joined co-operative stores or co-operative groups, making up one-fourth of all the retail dealers. During this period, about 440 private commercial enterprises became state-private enterprises.

Section V Steady Progress in Socialist Construction

By 1955, the First Five-Year Plan had been implemented for three years. The planned targets for all departments of the national economy were

overfulfilled or nearly fulfilled, with the exception of agricultural production which failed to meet the target due to natural calamities in the first two years.

(1) Capital Construction. According to statistics, the actual amount of state investments in capital construction in 1953 was 75 percent greater than in 1952; in 1954 the amount was 15 percent more than in 1953 and in 1955 it was also 15 percent more than in 1954. By the end of 1955, the state had made investments equivalent to 51 percent of the total amount earmarked for the First Five-Year Plan. In 1955, of the 741 projects undertaken, 102 or 13.8 percent were completed and put into production.

The completion of these projects considerably increased the production capacity of China's industry. In those three years, the country's annual coal production capacity increased by 33.67 million tons; electricity, 996,000 kw; pig iron, 1.498 million tons; and steel, 1.131 million tons. Considerable growth was also registered in the production capacity of major products in the non-ferrous metal, chemical and light industries.

Owing to the lack of experience at the initial stage of large-scale capital construction, there were some cases of waste. In 1955 a movement was launched to increase production and practise economy, and the standards of designing for non-productive projects were lowered. Statistics collected from 3,280 large construction projects in 1955 showed that more than 1 billion yuan of investment were saved, accounting for more than 11 percent of the planned investment for capital construction. The proportion of investment for non-productive projects in the total amount of investment for capital construction dropped from 33.9 percent in 1954 to 24.2 percent in 1955. The targets set by the state for reducing the costs of engineering projects were also fulfilled in the main.

(II) Industry. In 1953 the total output value of industry increased by 30 percent over 1952; the increase in 1954 over 1953 was 16 percent and in 1955 the increase was 5.6 percent over 1954. According to the First Five-Year Plan, the nation's total industrial output value was to increase by 98.3 percent in five years, or an average annual increase of 14.7 percent. But in the first three years, the industrial output value actually increased by 60 percent, averaging 18.1 percent a year.

In those three years several thousand new products, which China could not produce previously, were successfully developed and trial-produced. Of

these new products, 2,212 were successfully trial-produced by departments under the First Ministry of Machine-Building Industry, and more than 3,000 were developed by the textile and light industrial departments. In 1954 China succeeded in producing its first airplane. The technological level of China's industry improved notably in these three years, with all the major technical and economic indices outstripping those in 1952. Take the state-owned industries at the central level for example. In 1955, the consumption of standard coal in power generation fell by 9.4 percent as compared with 1952; the utilization coefficient of blast furnaces increased by 14.9 percent, and the utilization coefficient of open-hearth furnaces increased by 27.6 percent. The consumption of raw materials in the production of cotton yarn, cotton cloth, rubber goods and cigarettes was also reduced.

While heavy industry developed rapidly, light industry also made much headway. Compared with 1952, light industrial production in 1955 went up by 44.8 percent. Moreover, the quality of some products improved remarkably. However, the growth rate varied greatly from year to year. In 1953, for instance, the growth rate was 26.7 percent over the previous year, and in 1954 the increase was 14.3 percent over 1953, but in 1955 the production level was the same as 1954. This was mainly because at that time light industry relied on agriculture for the supply of 80 percent of the raw materials it needed. Agricultural production was hit by natural calamities in 1954, which accounted for an insufficient supply of raw materials from the countryside. The result was in 1955 the output of cotton yarn dropped by 630,000 bales as compared with 1954; output of cotton cloth fell by 19 million bolts; cigarettes decreased by 160,000 crates and gunny-sacks were reduced by 6.46 million. The reduced output of these four products alone slashed the growth rate of the entire industrial production in 1955 by 4 percent.

During this period, labour productivity was raised considerably. In 1955 the labour productivity of the state-owned, joint state-private and co-operative industrial enterprises increased by 41.5 percent over 1952. Thanks to the movement to increase production and practise economy and the improvement of planned management and the system of economic accounting, production costs in industrial enterprises dropped. For instance, the production costs of state-owned industrial enterprises under the various ministries of the central government and key state-owned industrial

enterprises under the local governments dropped by 3.2 percent in 1953 as compared with 1952; and in 1954 and 1955 there was a further decrease of 5.8 and 8 percent respectively as compared with the preceding year.

The proportion of the output value of state-owned enterprises in China's total industrial output value rose from 41.5 percent in 1952 to 51.3 percent in 1955; in the same period, the proportion taken up by enterprises run by the co-operatives increased from 3.2 percent to 7.6 percent, and that of joint state-private enterprises rose from 4 percent to 13.1 percent. On the other hand, the output value of private industrial enterprises only accounted for 13.2 percent, and the value of orders placed by the state for the processing of goods planned purchase and marketing of goods by the state accounted for 82 percent of the total output value of private industry.

The proportion of modern industry in the total output value of industrial and agricultural production rose from 26.7 percent in 1952 to 33.6 percent in 1955, and that of machine-building industry increased from 5.2 percent in 1952 to 7.1 percent of the total industrial output value in 1955.

Both light and heavy industries developed rapidly, notably heavy industry. The output value of heavy industry increased by 87.7 percent in 1955 as compared with 1952, while that of light industry increased by 44.8 percent in the same period. The proportion of the output value of heavy industry in the total industrial output value rose from 35.5 percent in 1952 to 40.8 percent in 1955.

(III) Agriculture. Because of the serious natural calamities in many places in 1953 and the unusually big floods in 1954 in the basins of the Changjiang (Yangtze) and Huai Rivers as well as in Hebei Province, agricultural production fell short of the planned targets in the first two years of the First Five-Year Plan period. However, the campaign to increase production centring around the movement of mutual aid and co-operation succeeded in raising the peasants' ability to combat natural calamities, with the result that grain output in these two years still reached or slightly exceeded the level of the preceding year. In 1955 a rich harvest was gathered and total grain output was 12.2 percent higher than in 1952 and 32.6 percent more than the peak pre-liberation year. The output of cotton in 1955 increased by 16.5 percent over 1952 and was 78.9 percent more than the peak pre-liberation annual output.

(IV) Other Fields. In 1955 the total turnover of freight transport was

73.2 percent more than in 1952. The total volume of retail sales in 1953 went up by 25.7 percent over 1952, and it further increased by 9.5 percent in 1954 and 2.9 percent in 1955.

In the three years from 1953 to 1955 inclusive, market prices basically remained stable. Taking the 1952 retail price index as 100, then it was 103.2 in 1953, 105.5 in 1954 and 106.3 in 1955.

During this period, a basic balance was achieved in China's import and export trade. From 1954 China began exporting some light industrial products in small quantities. In the said three years, China's foreign trade with the Soviet Union and the other people's democratic countries made up 80 percent of its total volume of foreign trade. Trade with other Asian, African and Western countries was also expanded.

During the same period, state revenue steadily increased. The proportion of taxes and profits turned over to the state by the state-owned enterprises was 64.2 percent of the total amount handed in by the various economic sectors; this increased to 65.7 percent in 1954 and 71.3 percent in 1955.

Owing to the lack of experience, some problems cropped up in the course of economic construction.

In drawing up the budget for 1953, for instance, the financial surplus of 1952 was used to increase the investment in capital construction in an attempt to speed up the development of the national economy. But the fact was the 1952 financial surplus had already been extended by the People's Bank as credit funds to the industrial and commercial departments. The result was that total investment in capital construction in the 1953 budget increased by 75.3 percent over that of the previous year, while the output value of heavy and light industries was only 37 and 27 percent more respectively than in 1952, and that of agriculture was only 3.1 percent higher. Thus the scale of capital construction far exceeded the possible growth of industrial and agricultural production, and the result was a shortage in the supply of the means of production and consumer goods.

A national working conference on financial and economic work was held and the experiences and lessons were summed up in time. The conference pointed out that every department must strengthen planning and prevent blindness in work. It stressed that economic planning must have a reliable basis and that financial resources must be concentrated and put to the

best possible use. The conference also advocated practising economy and opposed undertaking too many projects at the same time. While it stressed strengthening centralized and unified leadership, it encouraged bringing into full play the initiative of the various localities and the people as a whole. After the conference, the central government took appropriate measures to quickly correct the mistakes in work.

X Basic Completion of Socialist Transformation

Section I Basic Realization of Co-operation in Agriculture And Handicrafts

In 1955, agricultural co-operation of an elementary form was basically accomplished in China's rural areas.

In July that year, Mao Zedong delivered the report "On the Co-operative Transformation of Agriculture" at a conference of secretaries of provincial, municipal and autonomous regional Party committees convened by the Central Committee of the Chinese Communist Party. The report summed up systematically the historical experience of agricultural co-operation in China's countryside and theoretically expounded the road, steps and methods of the socialist transformation of agriculture. It also dealt with the relationship between the transformation of the social system and technical transformation, and pointed out that the two should be combined and should proceed simultaneously. The report also laid down the policy of "comprehensive planning and more effective leadership" and reaffirmed the principles of voluntary participation and mutual benefit and steady advance. The report also set down the speed for the development of the co-operatives, calling for the setting up of elementary agricultural co-operatives throughout the countryside by 1960 and, from 1960 on, the gradual development of these semi-socialist co-operatives into fully socialist ones, batch by batch and stage by stage.

These theories and stipulation were feasible. But the report wrongly

criticized some comrades' correct views as "Right-deviation" and likened them to "women with bound feet," which greatly encouraged the "Left" sentiments already in existence and caused harmful effects in the later stage of the movement for agricultural co-operation.

After the conference of secretaries of provincial, municipal and autonomous regional Party committees, the pace of agricultural transformation was greatly accelerated in the rural areas, and the co-operative movement developed by leaps and bounds. From the end of June through October, the number of agricultural co-operatives doubled. In October, the Central Committee of the Chinese Communist Party held the Enlarged Sixth Plenary Session of the Seventh Party Central Committee, which adopted the "Resolution on Agricultural Co-operation" on the basis of Mao Zedong's report. This further accelerated the arrival of an upsurge in the movement for agricultural co-operation. By January 1956, the number of farmer households that had joined the co-operatives had increased from 14.2 percent in June 1955 to 80.3 percent of the total farmer households in China, thereby basically accomplishing the task of setting up elementary agricultural co-operatives in the rural areas. Following this, the movement for agricultural co-operation entered the stage of setting up advanced agricultural producers' co-operatives. By the end of 1956, peasant households that had joined the co-operatives had risen to 96.3 percent of all the farmer households in the countryside, while those in the advanced agricultural producers' co-operatives accounted for 87.8 percent of the total number of farmer households in the nation. By this time, the socialist transformation of private ownership in agriculture had been completed in the main.

With this upsurge in agricultural co-operation, the conditions were ripe for the elimination of rich-peasant farming. In the process of setting up agricultural co-operatives, the policy adopted was to restrict and gradually eliminate the rich-peasant economy. In the past, we mainly relied on the policy of developing mutual aid and co-operation and unified purchase and marketing of goods by the state to restrict the rich-peasants' exploitation of hired labourers and to curb their speculative commercial activities and their practice of usury. Following the upsurge in agricultural co-operation, the rich peasants were allowed to join the co-operatives, on the condition that they acquitted themselves well and that they gave up exploitation

completely. In this way they were able to transform themselves into working people living by their own labour.

To suit the needs of the new situation resulting from the upsurge in socialist transformation, the Supreme State Conference discussed and approved in January 1956 the Draft National Programme for Agricultural Development (1956-1967) submitted by the Central Committee of the Communist Party of China. The programme urged that steps be taken to increase the output of the crops rapidly and extensively on the basis of agricultural co-operation, and to develop farming, forestry, animal husbandry, sideline production and fishery. It also called for increased yields of grain within 12 years by 200, 250, and 400 kilogrammes per *mu* in three different kinds of areas. Although some of the targets were too high, the programme played a certain role in promoting the development of agricultural production.

In 1956, many areas in China were hit by serious natural calamities, but the nation's total agricultural output increased notably, with its total output value increasing by 5 percent over 1955 and grain output by 4.8 percent. About 80 percent of the farmers had increased their incomes. The farmers' purchasing power had risen by 61.8 percent over 1952; of this, the money used in purchasing the means of production upped by 191.7 percent, and the amount used in buying the means of subsistence went up by 41.8 percent.

The upsurge in the socialist transformation of agriculture promoted the advent of a high tide in the socialist transformation of handicrafts.

In December 1955, the Fifth National Conference on Handicraft Co-operation pointed out that the speed of developing handicraft co-operation should be compatible with the speed of industrialization and socialist transformation of agriculture and capitalist industry and commerce. The conference worked out a plan for promoting the socialist transformation of handicrafts and called for the basic completion of the task of setting up handicraft co-operatives in 1956 and 1957. In the spring of 1956, there emerged a nationwide upsurge in the socialist transformation of handicrafts. Not only were handicraftsmen in whole trades and entire regions organized, but they set up handicraft producers' co-operatives right away, bypassing the stage of supply and marketing co-operatives. In January that year, Beijing basically accomplished handicraft co-operation, followed by Tianjin, Nanjing, Wuhan, Shanghai and other cities. By February, 143 big and

medium-sized cities (or 88 percent of the nation's total) and 691 counties across the country had completed or basically completed co-operation in handicrafts. By the end of February, the number of handicraftsmen in the handicraft producers' co-operatives had reached 3 million.

In March, Mao Zedong issued the directive "Speed Up the Socialist Transformation of Handicrafts" after hearing a report by leading members of departments concerned under the State Council on the work of setting up handicraft co-operatives. He was of the opinion that the socialist transformation of independent handicrafts could in the main be accomplished in 1956. He said that China's fine handicraft products should not be discarded and that such products as Pock-marked Wang's and Zhang Xiaoquan's kitchen knives and scissors must not be discarded even ten thousand years from now.

The movement for handicraft co-operation developed rapidly in 1956. By the end of the year, over 100,000 handicraft co-operatives (groups) had been set up throughout the nation; of these, the number of handicraft producers' co-operatives had exceeded 74,000. Members of handicraft co-operatives numbered more than 6.03 million, or 91.7 percent of the total number of handicraftsmen; among them, 4.84 million were members of handicraft producers' co-operatives, accounting for 73.6 percent of the total number of handicraftsmen. The output value of handicraft co-operatives amounted to 10.8 billion yuan, or 92.9 percent of the total output value of handicrafts; of this amount, more than 10 billion yuan were the output value of handicraft producers' co-operatives, accounting for 86.2 percent of the total output value of the handicraft industry. Meanwhile, the individual economy in the salt industry, transport and other trades had also been basically transformed and co-operatives had been set up.

In 1956, the total output value of the country's handicrafts amounted to 11.7 billion yuan, fulfilling the target set in the First Five-Year Plan ahead of time. The average per-capita annual output value of members in the handicraft co-operatives (groups) was 1,702 yuan, an increase of 33.5 percent over 1955. The co-operatives' accumulated public funds in 1956 totalled more than 430 million yuan, and 90 percent of the members had their income increased, with their salaries raised by 66 percent over 1952. At the same time, their working conditions and welfare had been improved considerably.

Section II Transformation of Capitalist Industrial and Commercial Enterprises Into Joint State-Private Enterprises by Whole Trades

At the time when there was an upsurge in the socialist transformation of agriculture, there emerged a new situation in the socialist transformation of capitalist industry and commerce in the cities.

Though capitalist industry and commerce had been transformed into different forms of state capitalism after several years of effort, these forms could no longer meet the needs of the growing national economy. Many medium-sized and small industrial and commercial establishments were up against great difficulties due to the lack of capital, raw materials, equipment and techniques. Moreover, the workers in the private enterprises, with their political consciousness heightened, were not satisfied with the form of transformation already attained. As for the capitalists, the vast majority of them came to realize that taking the socialist road was an irresistible trend. All these showed that the conditions were ripe for the socialist transformation of capitalist industry and commerce in an all-round way.

Beginning from the second half of 1955, many private industrial enterprises became joint state-private enterprises; moreover, the joint operation of individual enterprises was replaced by joint state-private operation by whole trades. In Beijing, for instance, this took place in nine trades including the flour, electrical engineering and pharmaceuticals industries; in Shanghai, joint operation by whole trades covered 8 branches of the light and textile industries, including the cotton textile and flour industries, and 13 branches of the heavy industry, including the machinery, shipbuilding and iron and steel industries; and in Tianjin it embraced eight branches, including the rubber and tobacco industries. Simultaneous with this, retail establishments were also transformed into joint state-private enterprises by whole trades with the amalgamation of stores and the institution of joint operation.

In October that year, Mao Zedong invited members of the executive committee of the All-China Federation of Industry and Commerce to a meeting and expressed the hope that they would have a clear understanding of the law of social development, accept socialist transformation, follow the socialist road and become masters of their own destiny.

In November, the central authorities convened a conference on the transformation of capitalist industry and commerce. The conference discussed and adopted the Decisions on the Transformation of Capitalist Industry and Commerce (Draft) submitted by the Political Bureau of the Party Central Committee. It was decided to push forward the socialist transformation of private industry and commerce from the joint operation of individual enterprises to joint state-private operation by whole trades. This was a major step of decisive importance in the transition from capitalist private ownership to socialist public ownership.

The upsurge in the transformation of capitalist industrial and commercial enterprises into joint state-private enterprises by whole trades first began in Beijing in January 1956, and later spread to other parts of the country. In the first quarter of 1956, with the exception of Tibet and other regions inhabited by the minority nationalities, all the capitalist industrial and commercial enterprises in the big and medium-sized cities became joint state-private enterprises by whole trades, and the small individual commercial establishments soon became co-operatives. By the end of 1956, private factories that had been transformed into joint state-private enterprises accounted for 99 percent of the total number of private industrial enterprises at the beginning of the year, and their workers and staff members also accounted for 99 percent, while their output value made up 99.6 percent of the total. Of the entire private commercial enterprises, 82.2 percent of them with 93.1 percent of the total capital and employing 85.1 percent of the workers had undergone different forms of socialist transformation. Thus the socialist transformation of capitalist ownership was in the main completed.

After the realization of joint state-private operation by whole trades, the state made proper arrangement for the capitalists so that they would willingly accept socialist remoulding and do their part for the cause of socialist construction. The chief measure taken for this purpose was the assessment of shares. On the basis of the principle of "fair and reasonable, practical and realistic," the state took an inventory of the assets and liabilities of the private enterprises, made a reappraisal and determined the amount of private shares in the joint state-private enterprises. Statistics at the end of 1956 showed that the private shares in the jointly operated enterprises throughout China totalled 2.4 billion yuan, of which 1.7 billion yuan were in the industrial enterprises, 600 million yuan in the commercial establishments

and the catering and service trades and 100 million yuan in the transport and communications undertakings. During the period of joint state-private operation, the state paid a fixed amount of interest* to the private shareholders according to the assessed amount of private shares. Payment of such interest started from January 1, 1956, and about 120 million yuan were paid annually to 1.14 million private shareholders.

In the meantime, all the personnel formerly employed by the private enterprises were given work according to the principle of "assigning work appropriate to their abilities and giving due consideration to each special case."

The socialist transformation of private enterprises by whole trades and the payment of fixed interest to the capitalists brought about a fundamental change in the relations of production within the enterprises. The means of production in the enterprises, formerly jointly owned by the state and capitalists, were turned over to the state for management and utilization under a unified plan. The private shares of the capitalists no longer functioned as capital, and as they were served from the means of production they only served as certificates which brought the capitalists regularly a fixed amount of interest for a certain period. Owing to the change in the nature of private shares, the rights and position of the capitalists in the enterprises also changed. They no longer had any rights over personnel, materials or property and finance, but worked as administrative personnel or technicians. The workers were no longer wage-labourers and, like the workers in the state enterprises, had become masters of their enterprises.

*Fixed interest: This is a form of interest paid by the state to the capitalists on their shares at a fixed rate for a definite period to buy out their means of production during the entire period of joint state-private operation. The rate of interest on the private shares was generally 5 percent a year regardless of the size of the industrial or commercial enterprises and regardless of the profit or loss of the said enterprises. Fixed interest was a special form by which the capitalists obtained surplus value through their former ownership of the means of production. So the fixed interest on their shares was still a kind of income the capitalists received through exploitation. But as the rate was fixed, their exploitation of the workers was therefore strictly limited. Moreover, the ownership of the means of production by the capitalists was only in the form of fixed interest, while the entire means of production of the enterprises were under the unified distribution, management and use by the state. Statistics collected in 1957 showed that 710,000 such personnel and about 100,000 representatives of the capitalists who received fixed interest were all given work. In the big cities, 60-65 percent of these people took part in production management and about 35-40 percent worked as administrative personnel.

However, the old capitalist economic setup and management system were to a certain extent still hampering an increase in labour productivity. Reforms and reorganization were therefore necessary when the private industrial and commercial enterprises were transformed into joint state-private enterprises by whole trades.

The key to the reforms was to replace the capitalist principles of management by socialist principles. The contents were:

(1) Institution of the responsibility system by factory directors under the leadership of Party committees, and the organization of democratic management bodies participated by representatives of the workers and staff, the state and private owners to jointly enforce democratic management.

(2) Implementation of planned management, the strengthening of planning in production and management, and the gradual implementation of the economic accounting system and production reforms.

(3) Popularization of labour insurance, reform of the wage system, the institution of the safety system in production and improvement of collective welfare for the workers and staff.

The reorganization was carried out under the precondition that the existing equipment was fully utilized and that the reorganization was conducive to production management and to meeting the needs of the society. In this way the enterprises were either put under joint management or amalgamated as the occasion required. Statistics showed that by June 1957 more than half of the factories that had become joint state-private enterprises during the high tide of socialist transformation had been amalgamated and about one-third had been put under joint operation.

After the reform and reorganization, the production scale of the joint state-private industrial enterprises was expanded and their management was greatly improved. In 1956 the total output value of the joint-owned industrial enterprises was 32 percent higher than the total output value of these enterprises in 1955. Many factories improved the quality of their products, increased their varieties and reduced the costs.

Section III Establishment of Socialist Economic System

The basic completion of the socialist transformation of agriculture, handicrafts and capitalist industry and commerce in 1956 brought about a radical change in the structure of China's national economy.

Compared with 1952, in 1956 the proportion of revenue from the state sector of the economy in the nation's total had increased from 19.1 percent to 32.2 percent, and revenue from the collective economy and joint state-private economy had risen from 1.5 percent to 53.4 percent and from 0.7 percent to 7.3 percent respectively, while revenue from the privately owned economy and individual economy had dropped from 6.9 percent to below 0.1 percent and from 71.8 percent to 7.1 percent respectively. Thus the first three types of enterprises under socialist public ownership accounted for 93 percent of the total national revenue.

As to the total industrial output value, the proportion of the output value of state-owned industry increased from 41.5 percent in 1952 to 54.5 percent in 1956, that of collectively owned industry rose from 3.2 percent in 1952 to 17.1 percent in 1956, and that of joint state-private industry increased from 4 percent to 27.2 percent, while that of private industry dropped from 30.7 percent to 0.04 percent and that of individual handicrafts decreased from 20.6 percent to 1.2 percent in the same period. Thus the first three types of industries under socialist public ownership accounted for the 98.8 percent of the total industrial output value.

In commerce, the situation was the same, as shown in the following tables.

As for the turnover of freight by railway, highway and water transport, the state sector registered an increase from 95.8 percent in 1952 to 99.3 percent in 1956, the figure for the joint state-private sector in 1956 was the same as in 1952, and the private sector, which accounted for 3.5 percent in 1952, no longer existed in 1956.

The above clearly showed that China's new-democratic economic system composed of different sectors in the transition period had already been transformed into the socialist economic system in which the public-owned economy occupied the dominant position. The socialist public ownership of the means of production had replaced the private ownership of the means of production, making it possible for the state to develop the national economy in a proportionate way under the guidance of a unified plan. The distribution of the products of society and the national income guaranteed the expansion of socialist production and the improvement of the working people's livelihood. As for the distribution of consumer goods

Wholesale Trade

Type of commerce	Amount wholesaled	
	in 1952 (%)	in 1956 (%)
State owned	60.5	82.0
Supply and marketing co-operative	2.7	15.2
State capitalist and co-operative	0.5	2.7
Privately owned	36.3	0.1

Retail Trade

Type of commerce	Amount retailed	
	in 1952 (%)	in 1956 (%)
State-owned	19.1	38.1
Supply and marketing co-operative	23.9	30.0
State-capitalist and co-operative	0.2	27.5
Privately-owned	57.2	4.2

Total Retail Sales of Commodities

Type of economy	Amount Retailed	
	in 1952 (%)	in 1956 (%)
State-owned	16.2	34.0
Supply and marketing co-operative	18.2	20.1
State-capitalist and co-operative	0.4	28.3
Private	65.2	7.6

for individuals, the principle of "to each according to his work" was followed. At that time, the bourgeois elements were undergoing a transformation from exploiters to labourers. Because they still received a fixed sum of interest, there was exploitation to a certain extent. Total payment of such interest by the state amounted to 120 million yuan a year. (Payment started from 1956 and was at first fixed for 7 years; later it was extended to September 1966.) The existence of such exploitation, however, did not affect the establishment and development of the socialist economic system.

Section IV Readjustment in the Later Stage of Socialist Transformation

The successful accomplishment of the transformation of agriculture, handicrafts and capitalist industry and commerce indicated that the Chinese society had entered the stage of socialism. However, while great achievements were made, there occurred certain shortcomings and deviations.

The problems that cropped up in the socialist transformation of agriculture after summer 1955 were mainly as follows:

(I) Carelessness in work and over-rapidity in effecting the transformation. In July 1955 Mao Zedong proposed that the establishment of elementary agricultural co-operatives be accomplished in five years, and that advanced agricultural co-operatives be set up after 1960. But what happened was that shortly after the basic completion of the setting up of elementary agricultural co-operatives in 1956, they were immediately turned into advanced agricultural co-operatives, and by the end of the year the establishment of agricultural producers' co-operatives of the advanced type was basically accomplished throughout the country. This inevitably resulted in carelessness in work, and administrative measures such as forcing the middle peasants to join the co-operatives were taken in many areas, to the neglect of the principle of voluntary participation and mutual benefit. Such a rapid speed of development, however, was incompatible with the level of the productive forces at that time.

(II) Over-simplification and sameness in form. In the later stage of the co-operative movement, it was considered that the bigger the scope and the higher the degree of public ownership the co-operatives were, the more advanced they must be. The result was, instead of taking different measures suited to the different localities, one and the same form was adopted, that is, forming elementary agricultural co-operatives and then turning them into advanced co-operatives in most parts of the country. Such over-simplification in bringing about the transformation completely ignored the level of consciousness of the peasants at the time.

(III) Overly large size of the advanced agricultural co-operatives. At the end of 1956, the advanced co-operatives had on the average 199 households each. In Hebei Province, the average was 340 households, and

large co-operatives with more than 500 households accounted for 23 percent of the total. Hence it was inconvenient to exercise leadership over them or to run them on a democratic basis. In addition, by taking the advanced co-operatives as the economic accounting units, the poor and the rich production brigades enjoyed equal shares in distribution, which was not conducive to mobilizing the enthusiasm of members of the better-off production brigades.

(IV) Failure in implementing the responsibility system in agricultural production. Responsibility systems such as fixing work quotas and output and giving awards for above-quota output had already been introduced in the elementary co-operatives and had continued to develop when the advanced co-operatives were set up. In 1953, the Resolution on the Development of the Agricultural Producers' Co-operatives stipulated that year-round regular production teams and the contract system of ploughing by production brigades on a seasonal basis should be gradually popularized. In 1955 the Draft Regulations Concerning the Exemplary Role of Agricultural Producers' Co-operatives also stipulated that the agricultural producers' co-operatives should as much as possible move forward from the contract system of ploughing and cultivation on a seasonal basis to the system of year-round contract system and giving awards for above-quota output. The 1956 Regulations Concerning the Exemplary Role of Advanced Agricultural Producers' Co-operatives stipulated explicitly that these co-operatives could put into practice the system of fixing output quotas and giving awards for above-quota output as well as the labour contract system. But during the high tide of the co-operative movement, co-operatives were organized at an increasingly rapid speed and they were turned too quickly into co-operatives of an advanced type without first working out new systems and methods of management commensurate with this new form. This gave rise to such phenomena as dillydallying in work and egalitarianism in distribution, which seriously affected the farmers' enthusiasm for production.

(V) Little or no respect for the co-operatives' decision-making power. Some co-operatives were allowed to produce grain but were forbidden to develop sideline production. In some areas, sideline occupations such as raising pigs and chickens decreased considerably, resulting in a drop in the income of the co-operatives.

To solve these problems in the co-operative movement, efforts on a nationwide scale were devoted to streamlining and consolidating the co-operatives after March 1956. In September, the Central Committee of the Chinese Communist Party issued a directive in this regard, demanding that the cadres rectify their style of work, that the co-operatives and production brigades consolidate their organizations, and that the size of the co-operatives be readjusted in accordance with the desire of the farmers.

In the socialist transformation of handicrafts, there existed similar shortcomings of impetuosity in work and over-simplification and sameness in form.

Some comrades did not have a clear understanding of the characteristics of the handicrafts which, being small in scale, scattered and flexible in management, produced a great variety of products and had close ties with the people's livelihood. Without considering whether the conditions were suitable or not, they set to merging the small handicraft workshops into big co-operatives which carried out production under centralized management and the system of unified calculation of profits and losses. The results were: The supply and marketing of many handicraft products fell into disarray, co-ordination broke off, output dropped, the variety of products decreased and the co-op members' income dwindled. In scope, the handicraft producers' co-operatives in the country had on the average 50.9 persons each in the first half of 1956, which was 11 percent higher than the 1955 figure of 45.8 persons. In some provinces and cities, the average number of handicraftsmen in the co-operatives far surpassed this figure. In Hebei Province's Shijiazhuang, for instance, 88 small handicraft co-operatives were merged into 31 big ones, 8 of which had 100 to 200 persons each, another 8 had 200 to 500 persons, 4 had 500 to 1,000 persons, and the biggest one which was a garment co-operative had 1,400 members. In Harbin, 3 co-operatives which used to produce more than 100 kinds of hardware turned out only 30 kinds after they were merged.

In view of this situation, the State Council issued in February 1956 the Decisions on Certain Questions Concerning the Present Socialist Transformation of Privately Owned Industry, Commerce and Handicrafts. The documents pointed that handicraft households joining the co-operatives must be allowed to maintain their original supply and marketing relations, and that it was not advisable to carry out centralized production

and unified management before the conditions were ripe. It also pointed out that in bringing about socialist transformation, the handicraft industry must maintain the quality and variety of products and that steps should be taken to quickly improve the quality and resume the production of those varieties that had been slashed. Mao Zedong said in March 1956 that anything good and characteristically Chinese that had been discarded must be restored and even improved. The resolution of the Eighth National Congress of the Communist Party of China clearly pointed out that while the main body of the socialist economy implemented centralized management, there should also be a certain portion under dispersed management, which supplemented the main body.

From the second half of 1956 to the first half of 1957, the preparatory committee of a general office for the handicraft co-operatives throughout the country convened three national conferences on the transformation of handicrafts and concentrated efforts to study and solve the aforementioned problems. As regards products which were simple in specifications and could be batch-produced, mainly products to be turned out in accordance with orders from industrial and commercial departments, and as regards those co-operatives which had a more detailed division of labour and which needed closer co-ordination and could gradually mechanize their production, the system of centralized production, supply and marketing and unified calculation of profits and losses should be carried out in an appropriate way. With regard to some co-operatives whose products were sold directly to the consumers and other co-operatives doing repairs and offering other services by setting up shops and other flexible means, they should be allowed to carry on their production in small groups or units, and these groups or units should be allowed to make purchases and market their own products and be responsible for their own profits and losses. As for the household-based handicrafts which turned out products according to orders from commercial departments, such as embroidery and weaving, they should be allowed to carry on production under dispersed management, but were placed under a unified system of supplying raw materials and marketing products as well as unified calculation of profits and losses. As regards those handicraftsmen who roamed the streets or countryside selling their wares or doing repairs, they could carry on their work on the household basis under unified leadership and they should be responsible for

their own purchases and marketing as well as their own profits and losses.

As a result of the implementation of the aforementioned measures, the handicraft economy made tangible progress in 1957, and the number of handicraftsmen increased from 544,000 in 1956 to 640,000 in 1957. The national forum on the transformation of handicrafts held in March 1957 pointed out that because China had a big population and that social demands could not be met completely in a short period of time, the individual handicraft households would continue to exist and develop for a long time to come, and there was no need to be hasty in getting them organized. To retain a number of individual producers, as practice proved, was quite necessary to invigorate the market and bring convenience to the people's livelihood.

In the transformation of capitalist industry and commerce, there were also some shortcomings. These found expression mainly in the fact that too many privately owned industrial and commercial enterprises were merged and put under centralized management. These enterprises were mostly scattered and backward, and it was necessary to reorganize them according to the different trades. But to merge them haphazardly, expand the scale of the factories and overhastily change their traditional methods of production and management and former ties of co-operation inevitably seriously affected their normal production. In the machine-building industry in Shanghai, for instance, the repair and assembling services could not meet the requirements because not enough such factories were retained during the reorganization. And in the belt-weaving textile industry, one out of every 50 looms stood idle for a period of time awaiting repairs.

In commerce, the consumers' needs were not given due consideration when small shops were amalgamated into big ones. There was, in particular, a lack of understanding of the conveniences to the people's livelihood provided by the peddlars, roadside stalls, small shops and husband-and-wife stores and the necessity of their continued existence for a long time to come. In Zhengzhou, for instance, 40 small shops were merged into 13 big ones. The result was undue inconvenience to the people in the city.

Another shortcoming in the reorganization of commercial enterprises was that little attention was paid to retaining the prestige of certain famous-brand products, thereby adversely affecting their sales. The "Heji" brand Manggong Cakes of Foshan city in Guangdong, for example, was a famous local speciality. After reorganization, similar cakes produced by all the

factories in the city were trade marked "Heji," which undermined the reputation of this speciality. Another example was Guangzhou's Qishengtang Pharmaceutical Factory, a merger of the Hejiyuan Pharmaceutical Factory and 13 other factories. After the merger, the production of Hejiyuan's traditionally famous medicines was suspended, thereby undermining the market in Quanzhou, Fuzhou, Shantou and other places.

To solve these problems, the State Council issued in February 1956 the Decisions on Certain Questions Concerning the Present Socialist Transformation of Privately Owned Industry, Commerce and Handicrafts. The document pointed out clearly that privately owned industrial and commercial enterprises should, in the first six months after the merger, operate under the same management system as before and maintain their former supply-marketing and co-operation relationships. As regards the large numbers of small and scattered shops, they should after the merger continue their former ways of management, acting as retail distributors or commission agents for the state and responsible for their own businesses as before. As for the peddlars, they should be allowed to carry on their businesses as usual for a long period of time. Privately owned industrial and commercial enterprises must maintain the quality and variety of their products. As regards those products whose quality had dropped and whose variety had decreased, efforts should be made to restore them as soon as possible. These decisions were correct, but they had not been followed conscientiously, and some problems were left unsolved for a long time.

XI Rapid Development of Economic Construction

Section I Fulfilment of the First Five-Year Plan Ahead of Time

By 1956 there were only two years left for the First Five-Year Plan. Since only 51 percent of the investments were fulfilled in the first three years of the First Five-Year Plan and many key projects were approaching the peak construction period, it was therefore necessary to increase the speed so

that not too much work would be left for the following two years. The bumper harvest gathered in 1955, together with the financial and material surplus, created favourable conditions for the development of industry and the national economy. The upsurge in socialist transformation that took place at the end of 1955 and in early 1956 gave a great fillip to the development of the various trades and professions. These advantages were maximized while working out the plans for 1956 so as to fulfil the tasks of the five-year plan ahead of schedule.

The results in the implementation of the 1956 national economic plan showed that tremendous achievements were scored in economic construction, and all the major targets set in the First Five-Year Plan were fulfilled ahead of schedule.

(I) Capital construction. The amount of investments in capital construction for 1956 totalled 13.99 billion yuan, and 95 percent of the plan were fulfilled, registering an increase of 62 percent over the preceding year. Investments in capital construction in 1956 accounted for about one-third of the planned amount for the First Five-Year Plan, the highest ever since the founding of the People's Republic in 1949. It was also a year in which the greatest number of projects in capital construction were accomplished. If the amount of investments in capital construction completed in the previous three years were added, the accumulated total was about 86 percent of the investments for the First Five-Year Plan, thereby ensuring the overfulfilment of the plan for capital construction. In 1956, there were 625 above-norm industrial projects which started construction or were being built, 135 more than the figure set in the First Five-Year Plan.

(II) Industry. The nation's total output value of industry and agriculture amounted to 128.6 billion yuan, overfulfilling the quota by 2 percent and showing a 16.5 percent increase over the preceding year. Of this amount, total industrial output value was 70.3 billion yuan. This amounted to 107 percent of the annual plan and was 28 percent more than the previous year. This figure outstripped the 1957 level set in the First Five-Year Plan.

Of the 46 major industrial products listed in the First Five-Year Plan, 22 fulfilled or overfulfilled the annual plan and 24 failed to meet the plan. The output of 27 major industrial products, including steel, pig iron, steel products, cement, soda ash, passenger cars, cotton yarn and cotton cloth, reached or exceeded the 1957 target.

In addition to these achievements, China's industrial and technological level was raised considerably and a complete array of new industrial departments were set up. China could by that time use the equipment and materials it produced to develop its industry, equip its agriculture, transportation and communications, and reinforce its national defence industry. Between 1953 and 1956, total industrial output value increased at an annual average rate of 19.2 percent, surpassing the 14.7 percent growth rate set in the First Five-Year Plan.

(III) Agriculture. Although China was hit by natural calamities, great achievements were made in agricultural production thanks to the increased investments and loans by the state, the completion of the co-operative movement in agriculture and the construction of water conservancy works for the farmland. The total output value of agriculture in 1956 was 58.3 billion yuan, which was 96 percent of the annual planned figure and 5 percent more than the previous year. The output of grain totalled 192.75 million tons, which was 96 percent of the annual plan and 4.8 percent more than the year before, approaching the 1957 level. The output of cotton was 28.9 million *dan* (1 *dan* equals 50 kg.), which was 81 percent of the annual plan, showing a 5 percent decrease compared with the year before. With regard to the water conservancy projects, the targets set in the First Five-Year Plan were overfulfilled.

(IV) Communications and transportation. Railway tracks totalling 3,108 kilometres were laid in 1956; of which, 1,747 kilometres were newly built railways. A total of 17,499 kilometres of highways were built or repaired throughout the country. The plans for the volume of freight and the rotation volume of goods were all overfulfilled. Both passenger and goods transportation by railways and highways reached the 1957 level set in the First Five-Year Plan. Postal and telecommunications services also made rapid progress.

(V) Culture and education. In 1956 the number of students studying in the institutions of higher learning totalled 403,000. In the secondary technical schools, regular middle schools and primary schools, the number was 812,000, 5.165 million and 63.46 million respectively, all surpassing the 1957 level stipulated in the First Five-Year Plan.

(VI) People's livelihood. The number of workers and staff members throughout the country had increased to 24.23 million by 1956, and their

wages had been raised noticeably. The average wages of the workers and staff in enterprises owned by the whole people that year had increased by 14 percent as compared with the preceding year. Meanwhile, the income of the farmers also had risen by 4 percent. The market was thriving and commodity prices remained stable.

Section II Upholding the Principle of Opposing Both Conservatism and Rashness

The successes achieved in 1956 were tremendous. But the speed of construction that year was too fast, and there were certain mistakes which resulted from rash and excessive demands. The second half of 1955 saw an upsurge in socialist transformation. In the face of the successes, we lacked the necessary caution and circumspection, and mistakenly held that right-deviationist conservatism existed in our economic and cultural construction, which should be criticized and overcome.

Under this influence, when the third national planning conference was held in January 1956 to draft the 1956 plan for the development of the national economy, too much attention was paid to the requirements, and little consideration was given to the possibilities of the state's financial and material resources. The result was that the plan turned out to be a bit too pompous with regard to the investment in capital construction, the wage increase for the workers and staff and the increase in agricultural loans, thus resulting in the following errors:

(I) The scale of capital construction was too large. At the first national conference on capital construction held in 1956, the above-normal capital construction projects for the First Five-Year Plan period were increased from 694 to 745, and the number of projects to be completed in the five years was increased from 455 to 477. In June that year, the number of the above-mentioned capital construction projects was again raised to 800, an increase of 15.3 percent, and the number of projects scheduled to be completed was pushed up to 500, an increase of 9.9 percent. Because of the increase in the number of capital construction projects, the amount of investments exceeded the original plan, growing from 11.27 billion yuan, the amount first determined in September 1955, to 14.7 billion yuan, a 71 percent increase over the preceding year. (Later it was reduced to 14 billion

yuan, which was 62 percent more than the previous year.) The amount of investments in capital construction in 1956 accounted for 33 percent of the total investments for the First Five-Year Plan.

The overly large scale of capital construction gave rise to two problems: First, the rate of increase in investments surpassed that of state revenue. Second, the rate of increase in investments exceeded that of the manufacture of the means of production. The investments in capital construction in 1956 showed a 62 percent increase over the preceding year, whereas state revenue only registered an increase of 5.7 percent. Heavy industrial production, with stress on the manufacture of the means of production, went up by only 40 percent. The result was the supply of steel products, timber and various kinds of machinery and equipment fell short of demand. In addition, there was an inadequate supply of materials for the production of goods needed on the market, particularly materials needed in handicraft production. Thus the supply of these products could not meet market demand. In 1955 light industry took up 23.2 percent of the total amount of steel products consumed, but in 1956 it dropped to 18.7 percent.

(II) There was a sharp increase in the number of workers and staff. The 1956 plan was to increase 840,000, but the figure actually reached 2.3 million. The increase in the number of workers and staff and the rise in their wages that year led to a 37 percent increase in the total amount of wages as compared with the previous year, but light industrial production, with the stress on the production of the means of subsistence, only registered a 20 percent increase over the preceding year. This aggravated to a certain extent the phenomenon of supply of consumer goods falling short of demand.

(III) Credits exceeded the planned figures. It was planned to increase agricultural credits by 1.12 billion yuan in 1956, but the actual figure came to 2.03 billion yuan. Increased loans originally planned for the handicraft industry and joint state-private enterprises amounted to 290 million yuan, but the actual figure reached 940 million yuan. As funds available for such loans were insufficient, the problem had to be solved by excessively drawing on the surplus left over from the previous years and by issuing banknotes.

The problem of being over-anxious for quick results was also evident in agricultural production. In working out plans for agriculture, the targets were raised again and again. The growth rate of grain production, for example, was fixed at 1.7 percent in September 1955, but it was raised to 8.1

percent in December that year and again to 9.1 percent in May 1956. The quota for cotton production was reduced by 1.3 percent in September 1955, but it was changed to an increase of 16.9 percent in December that year and again to 18 percent in May 1956.

In 1956 many areas in the country were hit by serious floods, typhoons and drought, and the disaster areas covered 13 million hectares with a population of 70 million. This was why the output of some crops failed to meet the plan. While grain output showed a slight increase over 1955, the output of cotton and other crops which provided raw materials for industry decreased to some extent. Although the total output value of agriculture registered a 5 percent increase over the previous year, it failed to keep pace with the growth rate of investments in capital construction and the increase in the total wages of the workers and staff.

For these reasons, the result of implementing the 1956 state budget showed a deficit of 1.83 billion yuan. The financial deficit led to an increase in the issuance of banknotes, and the currency in circulation on the market went up by 1.7 billion yuan as compared with December 1955. With the increase of currency in circulation, the government had to draw on an equal amount of materials to serve as guarantee, with the result that commodities kept in stock in 1956 were depleted by 1.7 billion yuan as compared with the year before.

The Third Session of the First National People's Congress was convened in June 1956. The State Council which was led by Premier Zhou Enlai submitted several reports on economic work to the session. While reaffirming the achievements made, these reports pointed out that the development of production and all other undertakings should be put on a firm and reliable basis, and that while opposing conservatism, the tendency of impetuosity and rashness should also be opposed. This tendency, which had already appeared in many departments and regions in the past few months, had brought losses instead of promoting the development of the socialist cause. The session pointed out clearly that to overcome impetuosity and rashness was a problem which should be solved immediately in economic construction. The session played an important role in mobilizing the people to overcome this deviation in work.

Zhou Enlai made a report on the "Plan for the Development of the

National Economy and the Control Figures for the Financial Budget in 1957" at the Second Plenary Session of the Eighth Central Committee of the Chinese Communist Party in November 1956. He clearly pointed out that, on the premise that the 1957 plan should continue to make advance, certain curtailments should be made in capital construction and reasonable readjustments should be effected in the proportions between the various economic sectors so as to be compatible with the capabilities of the nation's financial and material resources. The plenary session unanimously endorsed Zhou Enlai's report.

At the conference of secretaries of provincial, municipal and autonomous region Party committees convened by the Party Central Committee in January 1957, Chen Yun stressed that in working out plans, efforts must be made to achieve a balance in the supply of materials, a balance between revenue and expenditure, and a balance in bank credits.

At the fourth national planning meeting held in February 1957, readjustments were made in the 1957 draft plan, and the scale of capital construction, administrative expenses, military spending, social purchasing power, labour plans, cultural and educational undertakings were all curtailed to varying degrees. For instance, the total amount of investment in capital construction was fixed at 11.1 billion yuan, 20 percent less than the previous year. In this way, a basic balance with the state's financial and material resources was achieved. Compared with the previous year, the shortage in the supply of commodities and materials was somewhat eased. But in the case of major materials such as timber, iron and steel, cotton cloth and edible oil, supply still fell short of demand. At the Fourth Session of the First National People's Congress held in June that year, all the major targets for the 1957 national economic plan were approved.

In order to ensure the requirements of national economic construction financially and materially and overcome the difficulties in economic life and financial credits brought about by impetuosity and rashness in 1956, the Party Central Committee issued the "Directive on the Movement to Increase Production and Practise Economy in 1957" to the whole Party in February 1957. The in-depth development of the movement played an important role in easing the financial and economic difficulties, in fulfilling the plan of the year and in overfulfilling the quotas set in the First Five-Year Plan.

XII Economic Management System

Section I Formation of the Socialist Economic System

China's centralized and unified economic system took shape under given historical conditions. After the founding of the People's Republic in 1949, a centralized and unified economic system must be established in order to achieve complete political unity, speed up the rehabilitation of the national economy and build socialism in a planned way, and carry out the socialist transformation of the private ownership of the means of production. But prior to the founding of New China, since the various liberated areas were separated from each other by enemy troops for many years, the principle of "unified leadership and decentralized management" was adopted in economic affairs. The various liberated areas issued their own currency, with each in charge of its own revenue and expenditure. During those war years, a kind of communistic system of supply on a maintenance basis (providing the primary necessities of life) was practised among the military and administrative personnel. The tradition of this supply system, such as egalitarianism, had certain influence on the formation of China's economic system at that time. Also because of the lack of experience in economic management, we followed the Soviet example in many aspects. In particular, we followed the Soviet pattern in building a modern industry, in capital construction and planned management, and in the allocation of materials. Thus both the positive and negative aspects of the Soviet experience had a great influence on the formation of our economic system.

A centralized and unified socialist economic management system gradually took shape and developed during the First Five-Year Plan period. It found expression mainly in the following aspects.

(I) Planning system. Its main characteristic was "unified planning and management at different levels." The state-run and joint state-private enterprises were placed under direct planning, with mandatory targets

issued by the state. Their major means of production were supplied by the competent higher authorities according to a plan and their products were purchased or allocated for particular use by the commercial and materials departments. Agriculture, handicrafts and private enterprises were placed under indirect planning, and their economic activities were brought into the orbit of the state plan mainly through the adoption of various economic policies, measures and contracts. They obtained their means of production from the market. As for the individual peasants, a plan based on estimation was applied prior to the co-operative movement. After the realization of agricultural co-operation, the state used economic means such as pricing, agricultural loans, forward purchasing contracts and taxation to make readjustments and guide the peasants to fulfil the plans. Mandatory targets for agricultural tax in kind and for state purchases were issued after the enforcement of planned purchase and marketing by the state of grain, cotton and edible oil, particularly after the co-operative movement.

During the First Five-Year Plan period, the plans drawn up by the state embraced 17 fields, namely, agriculture, industry, transportation, post and telecommunications, commerce, foreign trade, education, health work, scientific research, city public utilities, geological prospecting, capital construction, labour and wages, cost or circulation expenses, materials supply, state reserves, and comprehensive finance. Targets set forth in these plans covered various areas, including the output of major industrial and agricultural products, the scope of investment in capital construction, the allocation of important materials, state financial budget, the number of workers to be recruited and total payroll, the purchase and marketing of major commodities, foreign trade, issuance of currency, and the prices of major industrial and agricultural products. These plans also included details concerning the production and distribution of almost all the major products which were of great concern to the national economy and the people's livelihood, such as grain, cotton, oil-bearing crops, cotton cloth, sewing machines, bicycles, coal, steel products, timber, cement, copper, aluminium, acid, soda, rubber, electricity output, motor vehicles and machine tools.

With the basic completion of socialist transformation, the scope under direct planning expanded and the mandatory plans increased in number. By 1956, the products manufactured according to plans and placed under the unified management of the State Planning Commission had increased to 380

varieties from 115 in 1953, and they made up about 60 percent of the total industrial output value. Farm produce purchased in accordance with the state plan generally accounted for about 70 percent of the total amount of purchases.

(II) Industrial system. Industrial enterprises, except those in north China, were generally under the management of the various big administrative regions before 1953. These administrative regions were abolished in 1954 and the large state-run enterprises were successively put under the direct control of state industrial departments at the central level. By 1957, the number of industrial enterprises directly under the central authorities had increased to 9,300 from 2,800 in 1953, and they accounted for 16 percent of the total number of industrial enterprises under the central and local authorities, while their output value made up 49 percent. The state issued altogether 12 mandatory targets for industrial enterprises, namely, total output value, output of major products, trial-production of new products, major technological and economic quotas, cost reduction rate, total amount of cost reduced, total number of workers, number of workers at the end of the year, total payroll, average wages, labour productivity, and profit. Profits and depreciation funds of state-run enterprises were all turned over to the state and were included in the state budget. Investment needed by the enterprises for capital construction and funds needed for technological improvement, the trial-production of new products and the purchase of a limited amount of assets were all defrayed by financial appropriations. Bonuses and welfare funds in these enterprises were quite limited.

(III) Financial system. Finances at the big administrative regional level were abolished in 1953, and a financial system at the county (city) level was established to meet the needs of economic development. Thus the nation was financially divided into three levels: central, provincial (municipal or autonomous regional) and county (city). A financial system was set up under the unified leadership and planning of the central government, with specified functions and powers for the three levels in financial management. Those localities whose income exceeded their expenditure had to deliver their surplus to the state, while the state subsidized the other localities which could not make both ends meet.

Early in the 1950s, financial power was highly centralized. All the local financial surpluses were used to defray local expenditures in the next fiscal

year. Although it was decided in 1954 that the localities no longer had to turn over their surpluses to the state and that they could use the money for the next fiscal year, the decision was not actually carried out. During the First Five-Year Plan period, the greater part of the funds was concentrated in the hands of the central government. During this period, the central government accounted for 80 percent of the total revenue while the remaining 20 percent was contributed by the various localities (at the provincial and county levels). Of the total expenditures, the central authorities accounted for 75 percent while the various localities accounted for the remaining 25 percent.

(IV) Capital construction system. During the First Five-Year Plan period, the bulk of capital construction projects was administered directly by the various industrial departments at the central level, which determined the amount of investments and the construction tasks. Only a small number of local industrial and city construction projects were administered respectively by the local industrial departments and city construction departments. During this period, the large-scale construction projects had to be examined by the State Construction Commission and then ratified by the State Council; medium-sized projects were examined and approved by the relevant departments at the central level or by the provincial, municipal or autonomous regional authorities; and the small projects were examined and approved according to a procedure worked out by the various industrial departments or provinces, municipalities and autonomous regions themselves. During the First Five-Year Plan period, of the appropriations within the budget for capital construction, projects under the central authorities accounted for 79 percent of the appropriations while those under the local authorities accounted for only 21 percent. State investment in this period represented 90 percent of the total investment in capital construction.

(V) Materials supply system. All the major means of production in the nation were allocated by the central authorities under a unified system. They were further divided, in accordance with their importance, into materials distributed by the state in a unified way (such as steel products, copper, aluminium, lead, zinc and some other non-ferrous metals, timber, cement, coal, motor vehicles, metal-cutting machines and industrial boilers) and materials allocated by the various departments concerned at the central level. The former were listed in the state plan for unified and balanced

allocation while the latter were basically distributed by the central departments to their subordinate enterprises.

In 1953, materials allocated by the central authorities under a unified system numbered 227 kinds (112 kinds were allocated by the state in a unified way and 115 others by the departments in charge). The following years saw a growing amount of allocated materials. By 1957, they had been increased to 532 kinds (231 kinds were allocated according to a state plan and 301 others by the relevant departments).

(VI) Labour and wage system. Labour management underwent a gradual change during the First Five-Year Plan period, from "employment through recommendation and seeking employment by oneself" to the assignment of work under a unified plan, with the latter gradually expanding its scope. This meant moving gradually towards a system under which everyone has an "iron rice bowl," or a lifelong secure job regardless of his work.

In 1953, the big administrative regions and the industrial departments at the central level drew up their own labour plans and put them into force after approval by the central government. When the state-run enterprises, co-operatives, joint state-private enterprises and private enterprises wanted to recruit large numbers of workers, the labour departments made recommendations for them to choose. Recruitment in small numbers was carried out by the enterprises themselves locally, but they had to file a report to the labour bureaux.

Beginning in 1954, the power of planning and administration concerning labour was gradually concentrated in the hands of the central authorities, with the state determining the number of government employees and workers to be recruited every year. In 1955, recruiting workers and staff members from the society was suspended. Whenever the enterprises and undertakings under the departments at the central level were in need of new workers, they must first have the approval of the competent departments and then file a report to the labour departments.

In 1956, it was decided that the enterprises and undertakings did not have to go through the competent departments and labour bureaux at the higher levels when recruiting new workers so long as they kept within the quotas in the labour plan approved and issued by the state. They could directly seek assistance from the local labour departments. As a result of this

decentralization of decision-making power, the number of workers and staff members recruited in the year turned out to be 1.46 million more than the planned number of 840,000.

In January 1957 the State Council again decided to stop any recruitment of workers directly from the society by the enterprises themselves. It also stipulated that the provincial, municipal or autonomous regional authorities' approval was needed in recruiting temporary workers who were not allowed to work for more than a month or become regular workers.

The management of the wage system could be divided into two stages during the First Five-Year Plan period. Before 1954, wages were managed in a decentralized way. In the years immediately after the founding of New China, the personnel system was far from perfect and there was no unified wage system for the workers and staff members of enterprises taken over from the Kuomintang. A characteristic of the system of distribution at that time was that the system of supply on a maintenance basis existed side by side with the wage system.

At that time there were 11 million employees in units owned by the whole people, and the supply system on a maintenance basis was applied to over one million of them, mainly employees in the government organizations. Although wages were put under planned management in 1953, the state controlled only the total payroll and wage scales, and the enterprises were still able to make their own arrangements for the promotion of workers so long as they did not exceed the amount of wage-funds approved by the state each year.

After the abolition of the big administrative regions in 1954, the central labour department was put in overall charge of wage management with a view to meeting the needs of planned economic construction. The following year saw the replacement of the system of supply on a maintenance basis by a wage system, thereby unifying the wage system for all government employees. In 1956, the national conference on the reform of the wage system decided to do away with the system of wage-points and replace it with a standard wage scale calculated in cash. The wage standard for government organizations, undertakings and enterprises was unified, and the wage scales for the workers and staff members and the system of promotion were all laid down by the state.

(VII) Commercial system. Commerce underwent a change during the

First Five-Year Plan period from a highly centralized system to one of "unified leadership and management at different levels." Wholesale stations were established in various economic zones, and the system of management at different levels was practised. The specialized corporations set up first-grade purchase and supply stations in the major producer-cities and import ports to purchase local products and supply them to the second-grade stations across the nation. The provincial corporations set up second-grade wholesale stations in the major producer-cities and communication hubs inside the province, and their service range was determined in the light of the rational outflow of commodities. These stations were responsible for the purchase of local products and the organization of supplies to third grade wholesale stores in the same region. The city and county branch companies established their own wholesale and retail stores to do wholesale and retail businesses.

The corporations and enterprises at the various levels carried out independent business accounting, which was finally unified by the specialized national corporations. Commodities were managed at different levels, and the Ministry of Commerce, national corporations, commercial departments (bureaux) at the provincial (municipal) levels, and provincial and municipal corporations were all empowered to allocate commodities. The first- and second-class commodities* were allocated in a planned way and, as regards third-class commodities, transactions were carried out at supply conferences.

When the policy of planned purchase and marketing of goods by the state was adopted, the purchase of the bulk of farm produce and sideline products and the supply of most daily necessities and consumer goods were brought into the orbit of the state plan. During the First Five-Year Plan period, grain, edible oil, cotton and pigs accounted for about 60 percent of the total purchases of farm and sideline products, and grain, edible oil, cotton cloth, wadding cotton and pork accounted for 40 percent of the total retail sales of consumer goods.

* First-class commodities referred to those which were vital to the national economy and people's livelihood. They included grain, oil-bearing crops, cotton, coal, gasoline and others. Second-class commodities referred to those which were relatively important to the national economy and people's livelihood. They included pigs, fresh eggs, jute, bluish dogbane, chemical fertilizer, pesticides, bicycles, Chinese and Western medicines. Other commodities, such as small articles for daily use and fresh or dried fruits, fell under the third category.

In the early years of the First Five-Year Plan period, private commercial undertakings and individual traders occupied a comparatively large proportion. After the basic completion of the socialist transformation, there were still 1.43 million co-operative shops and commercial groups employing 2.84 million people and 680,000 individual stores involving 740,000 people. To cope with this situation, the state set up a number of specialized corporations so as to strengthen the leadership over them.

(VIII) Commodity price system. In the early post-liberation years, the Ministry of Trade fixed the prices for the purchase of farm products and the wholesale prices of consumer goods. At that time, the ministry controlled only the purchase prices, wholesale prices, regional price differences and wholesale-retail price differences of a small number of important products, such as grain, cotton, cotton yarn, cotton cloth, salt and coal. Retail prices were determined by the various big administrative regions in the light of regional price differences and wholesale and retail price differences.

From 1953 to 1956, the prices for the purchase of farm produce and the prices on the market were under the unified management of the Ministry of Commerce. The ministry determined the principles for the management of commodity prices, and exercised control over the prices of commodities in the major producing areas and on the markets, the prices of commodities of great significance to the national economy and the people's livelihood and the prices of major imported products. It was also responsible for working out the principles and methods of fixing the regional price differences, import and marketing price differences, wholesale and retail price differences, and seasonal price differences.

(IX) Foreign trade system. After the founding of the People's Republic, China's foreign trade was under the administration of the foreign trade department in the Ministry of Trade of the Central People's Government. In 1952, the Ministry of Foreign Trade was established. Following this, a number of specialized import and export corporations were set up according to the different categories of commodities. The national corporations were under the leadership of the Ministry of Foreign Trade, and the branch corporations in the various trading ports and hinterland were under the dual leadership of relative national corporations and local foreign trade bureaux. The import and export business of the

country was carried out exclusively by the specialized corporations, and all other departments and units were not entitled to deal directly with foreign countries.

At that time, the state economic sector had control over the greater part of China's foreign trade, and its import and export business was carried out within the framework of the state plans. The import plan was worked out by the State Planning Commission according to the needs and possibilities of the nation, while the export plan was worked out by the Ministry of Foreign Trade in the light of the requirements of the national economic plan drawn up by the State Planning Commission after consultations with the various departments under the central government and the various localities.

The centralized and unified economic management system during the First Five-Year Plan period demonstrated its flexibility in certain aspects. For instance, multiple and flexible forms of plans were adopted for different economic sectors. Direct plans (mandatory plans) were applied to the state-owned economy and indirect plans were adopted for the other sectors of the economy. For the co-operative economy and the state capitalist economy, simple plans were drawn up. For the capitalist economy, individual farming and handicraft industry, comparatively reliable estimation plans were worked out by the planning departments of the various provinces (municipalities) and counties on the basis of investigation of typical examples. In the circulation field, the various economic sectors and multiple circulation channels coexisted, and the industrial means of production produced by the private enterprises were allowed to be sold on the market; the medium-sized and small state-run industrial enterprises were given certain powers to market some of their ordinary products; and the private enterprises could market a certain amount of their own products.

Meanwhile, appropriate attention was paid to bringing into play the role of various economic policies, economic leverage and economic contracts. For instance, the state used the price leverage to regulate agricultural production. In April 1953, when the cotton-growing area had been expanding over the previous three years, the Central Financial Commission decided to reduce the parity rate between cotton and grain in the wheat-growing areas from the original half a kilogram of cotton for 4 kilograms of wheat to 3.2-3.75 kilograms of wheat so as to stop the blind expansion of cotton fields. Besides, the state signed various kinds of

contracts with the peasants through the rural supply and marketing co-operatives with a view to indirectly bringing the individual farming into the orbit of the state plan. During the First Five-Year Plan period, an increasing number of contracts were signed on the marketing of farm and sideline products and the supply of the means of production. While the state controlled the prices of major industrial products, the private retail traders were allowed to sell handicraft articles at floating prices in the light of prices fixed by the state, and a small number of native and special products could be sold freely on the market.

With regard to bank credits, the principle of giving priority to industry before commerce was followed, and support was first given to the advanced type of state capitalism with due consideration for the private enterprises' need of funds in production. In addition, enterprises which accepted orders from the state for the processing of goods enjoyed more preferential credit terms than those which marketed their own products.

In taxation, various kinds of taxes were worked out to cope with the situation in which various types of economy coexisted and the objective economic conditions were rather complicated, the aim being to give play to their differing roles. For instance, the state regulated production through levying commodity tax, circulation through business tax, and income through income tax. Enterprises of different ownership and their products were treated differently in terms of tax rates and profit rates.

During the First Five-Year Plan period, the economy was on the right track, the interflow of goods between the rural and urban areas was lively, the market was brisk, the prices were stable, and the people were satisfied. Factors accounting for these achievements were numerous, and a major one which should not be overlooked was that in the course of setting up a centralized and unified management system, a certain amount of flexibility was retained.

Section II Plan for Structural Reform

Toward the end of the First Five-Year Plan period, the defects of this highly centralized economic system gradually came to light. The major drawbacks were: There tended to be a single system of ownership, state

power was over-centralized and the state exercised overly rigid control over the enterprises, thus adversely affecting the economic life of the nation.

At that time excessive power over the control of industries and materials was concentrated in the hands of the central government. According to statistics released in 1956, the industrial enterprises directly under the central departments accounted for 49 percent of the total industrial output value. The output value of these enterprises accounted for 23.8 percent of the total output value of the textile and light industries, 47.2 percent in the machine-building industry, 57 percent in the chemical industry, 72.2 percent in the coal industry, 83.3 percent in electricity output, 87 percent in the nonferrous metals industry, and 94 percent in the iron and steel industry. Excessive amounts of major capital goods, which were closely related to the heavy and chemical industries, were placed under the management of the central departments.

Following the upsurge of socialist transformation in 1956, there tended to be only one system of ownership. The characteristics in management and the special functions of individual handicraft, commerce, the catering, repair and other service trades as well as the small traders and pedlars were overlooked and too many of them were merged to form co-operatives. This greatly reduced the scope of free production and operation to meet market needs. At that time, the state-owned commercial enterprises, which had exclusive control over the market, still followed the old method of state monopoly of purchase and marketing of light industrial goods and general merchandise, a method used in the early 1950s to restrict capitalist industry and commerce. All this was disadvantageous to regulating production and circulation according to market needs.

During the First Five-Year Plan, the central government had control over 75 percent of the financial resources, while the local authorities had only limited funds at their disposal. It was therefore difficult for them to make overall planning and adjustments according to local needs or to build necessary local projects. At that time the enterprises lacked the power to make their own decisions because they had to turn over all their incomes to the state and ask for money from the state to cover all their expenditures. Beginning in 1952, reward funds were set up in the enterprises, and in 1956 the state-owned enterprises could retain a certain amount of above-target profits. However, among the special funds of state-owned enterprises, the

reward funds and above-target profits accumulated in five years amounted to only 2.14 billion yuan, which was equivalent to only 3.75 percent of the state revenue from the enterprises during the same period.

In 1956 Mao Zedong, Liu Shaoqi, Zhou Enlai and others heard the reports on the work of 34 central departments, including the departments of industry, agriculture, transportation, commerce and finance, and made extensive investigations and study. On this basis Mao Zedong made the important speech "On the Ten Major Relationships" at an enlarged meeting of the Political Bureau of the Central Committee of the Chinese Communist Party on April 25 that year. The speech pointed out: "Our attention should now be focused on how to enlarge the powers of the local authorities to some extent, give them greater independence and let them do more, all on the premise that the unified leadership of the central authorities is to be strengthened." "We must not follow the example of the Soviet Union in concentrating everything in the hands of the central authorities, shackling the local authorities and denying them the right to independent action." At the same time he said: "Every unit of production must enjoy independence as the correlative of centralization if it is to develop more vigorously." "It's not right, I'm afraid, to place everything in the hands of the central or the provincial and municipal authorities without leaving the factories any power of their own, any room for independent action, any benefits."

In May 1956 the State Council convened a national conference on the state system, discussed the question of over-concentration of power in the hands of the central authorities at that time and put forward a draft resolution on improving the state's administrative system. The draft outlined several principles for the division of the functions and powers in the administration of the central and local authorities: (1) The various provinces, municipalities and autonomous regions had a certain amount of administrative power over planning, finance, enterprises and undertakings, materials and personnel. (2) Enterprises and undertakings that had an overall bearing on the national economy and were of key importance were put under the administration of the central authorities. Other enterprises and undertakings were managed as far as possible by the local authorities. (3) Conscientious efforts should be made to improve the management of enterprises and undertakings, and the method of dual leadership should be followed. In other words, the enterprises and undertakings were to be

managed primarily by the central government and supplemented by local governments or vice versa. (4) The principal plans and financial targets worked out by the central government were to be issued to the lower levels by the State Council. (5) There should be a certain amount of leeway and flexibility for the various localities with regard to certain major plans and targets and the number of working personnel.

At the First Session of the Eighth Party Congress in September 1956, Zhou Enlai delivered the "Report on the Proposals for the Second Five-Year Plan for the Development of the National Economy," and Chen Yun delivered the speech entitled "New Problems After the Basic Completion of the Socialist Transformation." Both dealt with the economic management system after the basic completion of the socialist transformation.

Zhou Enlai pointed out that with the successful accomplishment of the socialist transformation, the socialist economy had occupied the predominant position in China, which made it possible for us to better use the law of value within reasonable limits. In commerce we would adopt many measures. For example, under the unified leadership of the state over the market, a few free markets would be organized in a planned way, and within a certain scope, the enterprises would be allowed to produce and market their own products. With regard to certain manufactured goods for daily use, the method of purchase on a selective basis would be adopted, and all commodities would be priced according to their grades and quality. These measures would play a useful role in supplementing the state's unified market rather than disrupting it.

Chen Yun pointed out that the purchase and marketing relations between industrial and commercial enterprises should be changed and that it was necessary to continue the state's planned purchase and marketing of products that were simple in specifications and of great concern to the national economy and the people's livelihood. With regard to the wide assortment of daily-use articles, the planned purchase and marketing of products by the state should gradually give way to purchase on a selective basis. This meant that the 1953 method would more or less be restored on the new social economic basis. The commercial departments had the priority to choose and buy what they wanted, and those commodities which were not chosen and bought could be marketed by the factories themselves or by the commercial departments on a commission basis. Except for those raw

materials which were in short supply and had to be distributed by the state, other raw materials could be purchased freely by the factories themselves.

In the speech Chen Yun also set forth the famous thesis of "three mainstays and three supplements." He said that the state-owned economy and the collective economy were the mainstays of industry and commerce, while a certain number of individual enterprises were supplements; planned production was the mainstay of industrial and agricultural production, while free production carried out within the scope allowed by the state plan according to market changes was a supplement; and the state market was the mainstay, while free markets led by the state and operated within specified limits were supplements.

In 1957 the state set out to reform the economic management system and initially drew up some reform plans.

In September that year, the enlarged Third Plenary Session of the Eighth Central Committee of the Chinese Communist Party adopted the draft Regulations on Improving the Industrial Management System, the draft Regulations on Improving the Financial System and on Defining the Central and Local Governments' Power Over Financial Affairs, and the draft Regulations on Improving the Commercial Management System. In November these documents were formally promulgated upon approval by the State Council.

The main contents of these three documents were: (1) Beginning in 1958 most light and textile industries and some heavy industries (except for large and key enterprises) would, according to their specific conditions, gradually be placed under the management of the provinces, municipalities and autonomous regions. (2) Greater power would be granted to the provinces and municipalities over the distribution of materials. They were empowered to make adjustments with regard to the quantity, variety and use of the materials distributed to the central and local enterprises and to the local commercial institutions on the condition that all the enterprises would fulfil the state plans. (3) The localities were allowed a greater amount of income, and the more they earned, the more they could spend. (4) With regard to those enterprises placed under the management of the local authorities and some enterprises still under the management of the central departments, their profits were to be shared by the local and central authorities according to the ratio of two to eight. (5) The purchasing and

selling prices of third-class farm products and the selling prices on the secondary markets and the selling prices of secondary industrial goods were to be fixed by the provinces, municipalities and autonomous regions. (6) Foreign exchange earnings were to be shared according to certain proportions. (7) The ratio of profits to be shared between the state and the enterprises would remain unchanged for three years. The enterprises had the power to make readjustments regarding their setups and number of personnel on the condition that they would not increase the number of their workers and staff members. The number of mandatory targets assigned by the state to the enterprises decreased from the original 12 to 4 (output of major products, total number of employees, total wages and profits). For the commercial enterprises, the state only set four targets — amount of purchases, sales quotas, total number of employees and profits. At the same time the state allowed the localities a 5 percent flexibility in the total volume of purchases and sales while implementing the state's purchasing and marketing plan.

XIII Achievements of the First Five-Year Plan

Section I Overfulfilment of the First Five-Year Plan

By 1957 the First Five-Year Plan had been overfulfilled and tremendous success had been achieved in the socialist transformation and socialist construction.

(I) Socialist Transformation

By the end of 1957, the number of farmer households which had joined the agricultural producers' co-operatives accounted for 98 percent of China's total, and 96 percent of them were in the advanced agricultural producers' co-operatives. The number of people in handicraft co-operative organizations reached 5.89 million, accounting for about 90 percent of the

nation's total number of handicraftsmen. The proportion taken up by privately owned capitalist industry in the country's total industrial output value had been reduced to less than 0.1 percent, and private commercial undertakings (mainly small stores) accounted for only 3 percent of the total retail sales in the country. The socialist transformation of privately owned transportation establishments had also been basically accomplished.

With regard to the national income, the proportion contributed by the state-owned economy rose from 19 percent in 1952 to 33 percent in 1957, for co-operative economy, the increase was from 1.5 percent in 1952 to 56 percent in 1957, and for the joint state-private economy, it was from 0.7 percent to 8 percent. As for the individual economy, the proportion decreased from 72 percent to 3 percent and the proportion from the capitalist economy also dropped from 7 percent to less than 0.1 percent.

(II) Capital Construction

In the five years, China invested a total of 55 billion yuan in capital construction. Of this investment, the amount used for capital construction in economic, cultural and educational undertakings was 49.3 billion yuan, overfulfilling the plan by 15.3 percent.

Of the total investment made by the state in the five years, 56 percent went to the industrial departments, 8.2 percent to the agricultural, forestry and water conservancy departments, and 18.7 percent to the transportation, posts and telecommunications departments. And of the investment in capital construction for the industrial departments, heavy industry accounted for 85 percent and light industry took up only 15 percent.

As a result of the large-scale capital construction, the newly added fixed assets in the nation amounted to 46 billion yuan, of which the newly added industrial fixed assets reached 20 billion yuan.

During the First Five-Year Plan period, the building of more than 10,000 industrial and mining projects was undertaken. Among them, 312 were in the ferrous metals industry, 599 in the power industry, 600 in the coal industry, 22 in the oil industry, 1,922 in the metal-working industry, 637 in the chemical industry, 832 in the building materials industry, 253 in the paper-making industry, 613 in the textile industry, and 5,000 in the food and other industries. Among these projects, 921 were large and medium-sized ones. By the end of 1957, 428 were completed and put into operation and 109 were partially commissioned.

Of the 156 major projects built with Soviet aid, 135 had started construction and 68 were wholly or partially completed and put into production by the end of 1957. Of the 68 projects built with aid from the German Democratic Republic, Czechoslovakia, Poland, Hungary, Romania and Bulgaria, 64 had started construction and 27 of them had been completed and put into operation by the end of 1957.

The 921 large and medium-sized projects mentioned above constituted the backbone of China's modern industry, and many were new industries unknown to China before. They included the aviation and automobile industries, and projects for making power generating equipment, heavy-duty machines and new-type machine tools, precision meters and instruments, electroaluminium, seamless steel, tubes, alloy steel, plastic materials, radios and wired communication equipment.

With regard to the energy industry, which constituted the basis for the development of a modern industry, projects completed in the First Five Year Plan included the West Open-Cast Coal Mine, the Laohutai Coal Mine and the Longfeng Coal Mine under the Fushun Coal Mining Administration in Liaoning Province; the Haizhou Open-Cast Coal Mine and the Pingan vertical shafts in Fuxing of Liaoning Province; the Dongshan and Xingantai vertical shafts in Hegang, and the Chengzihe vertical shafts in Jixi of Heilongjiang Province; and the Yushiwa vertical shafts in Shaanxi Province. Power stations were built in Fushun, Fulaerji, Jilin, Dalian, Jiamusi, Shijiazhuang, Taiyuan, Baotou, Wuhan, Zhuzhou, Zhengzhou, Luoyang, Xian, Xigu in Lanzhou, Huxian, Urumqi, Chongqing, Kaiyuan, and Gejiu in Yunnan Province. In the oil industry, the Yumen Oilfield in northwest China's Gansu Province was expanded. These projects not only greatly increased energy supply in the northeast China industrial base, but also created favourable conditions for the construction of new industrial bases in central-south, north, northwest and southwest China.

With regard to the metallurgical and chemical industries, which were considered the base for industrial raw materials, a number of key projects were either completed or being built.

The Nos. 6, 7 and 8 blast furnaces, the large steel rolling mill, the seamless steel tubing mill, the plate steel mill and the No. 2 initial rolling mill in northeast China's Anshan Iron and Steel Company were completed and put into production successively in 1953, 1954 and 1956. The building of the

Beiman Steel Plant and the Benxi Iron and Steel Company was also basically completed. The first-phase construction of the Wuhan Iron and Steel Company and the Baotou Iron and Steel Company also started in 1955 and 1956 respectively.

As for the nonferrous metals industry, key projects such as the Baiyin Nonferrous Metals Company, the Dajishan Tungsten Mine, the Yunnan Tin Industrial Company and the Yangjiazhangzi Molybdenum Mine were built during the First Five-Year Plan period, thereby initially changing the pre-liberation backward situation in which China had to depend on imports for nonferrous metals. The construction of the Harbin Aluminium Plant, the Jilin Carbon Factory, the Fushun Aluminium Plant (second phase) and the Shandong Aluminium Oxygen Plant, in particular, enabled China to have a comprehensive aluminium processing industry ranging from mining to the processing of raw materials, thus laying the material foundations for the building of an independent aviation industry.

During the First Five-Year Plan period, many other projects were completed and put into production. They included the fertilizer plant, the calcium carbide plant and the dyestuff factory under the Jilin Chemical Industrial Company, the Taiyuan Chemical Works, the Taiyuan Nitrogenous Fertilizer Plant and the North China Pharmaceutical Factory. They could produce high-class dyestuffs, industrial and aviation paints, plastics, antibiotics, tyres for airplanes and special rubber products, all of which were imported previously.

In the machine-building industry, which was considered the central link of an industrial setup, a number of important projects were completed in the First Five-Year Plan period. The Changchun Motor Vehicles Plant, China's first factory of its kind with an annual capacity of 30,000 trucks, succeeded in trial-producing the first batch of *Jiefang* (Liberation) trucks in July 1956. The Shenyang No. 1 Machine Tool plant, the Harbin Boiler Factory and the Harbin Measuring Instruments and Cutting Tools Plant were also built and put into production in 1955 and 1957 respectively.

The Beijing Electronic Tube Factory, the first of its kind in China, was built and put into operation in October 1956. It successfully trial-produced more than a dozen kinds of electronic tubes. China's first aircraft plant also went into production and succeeded in trial-producing the country's first jet plane on September 9, 1959.

By the end of 1957, some other key projects were also approaching completion. They included the Wuhan Heavy Machine Tools Plant, the Fulaerji Heavy Machinery Plant, the Luoyang Mining Machinery Plant, the Luoyang Tractors Plant, the Harbin Steam Turbine Plant, the Harbin Electrical Machinery Plant, the Xian High-Voltage Electrical Porcelain Plant, the Xian High-Voltage Switch Gear Factory, the Xian Electrical Capacitor Plant, the Xian Insulating Materials Plant, the Shenyang Electric Wire and Cable Factory and the Lanzhou Petroleum Machinery Plant.

In addition, a number of building materials, forestry, light and textile industrial projects were completed and put into production. Among them were the Mudanjiang Cement Works, the Harbin Cement Works, the forest regions of the Greater Hingan Mountains, Changbai Mountains, and Yakeshi, the Jiamusi Paper Mill, the Guangzhou Paper Mill, the Harbin Linen Mill, the Beijing No. 1 and No. 2 State Cotton Mills, the Shijiazhuang No. 2 State Cotton Mill, the Zhengzhou No. 3 State Cotton Mill, the Wuhan Meat Packing Plant and the Baotou Sugar Refinery. As a result of such large-scale construction, most of the targets in the five-year plan were overfulfilled. The newly increased production capacities for major industrial products were as follows: iron smelting, 3.39 million tons; steel making, 2.82 million tons; steel rolling, 1.59 million tons; coal cutting, 63.76 million tons; electricity, 2,469 million kw; crude oil, 1,312 million tons; synthetic ammonia, 137,000 tons; cement, 2.61 million tons; metal-cutting machine tools, 8,704; trucks, 30,000; spindles, 2.01 million; looms, 55,000; sugar, 620,000 tons; and paper, 250,000 tons.

China's verified coal reserves at the end of 1957 were about 54.4 billion tons, and iron-ore deposits totalled 5.6 billion tons. Verified reserves of oil nonferrous and rare metals were also considerable. At that time China was able to design some large and technically complicated projects, such as iron and steel integrated works with annual capacity of 1.5 million tons, coal mines with a capacity of 2.4 million tons, chemical fertilizer plants with a capacity of 75,000 tons of synthetic ammonia, hydroelectric power stations with a generating capacity of one million kw and thermal power stations with a capacity of 650,000 kw.

(III) Industrial Production

In 1957 China's total industrial output value topped 78.39 billion yuan, which represented a 128.3 percent increase over 1952, or an average annual

growth of 18 percent. In 1957, the output value of handicraft industry was 83 percent more than in 1952, which meant an average annual increase of 12.8 percent. The proportion of industrial output value in the total output value of industry and agriculture went up from 43.1 percent in 1952 to 56.7 percent in 1957.

In 1957 the production of the means of production increased 2.1-fold as compared with that of 1952, and its proportion in the total output value of industry went up from 55.6 percent in 1952 to 48.3 percent in 1957. The proportion of machine-building industry in the total industrial output value rose from 5.2 percent in 1952 to 9.5 percent in 1957.

While giving priority to the development of heavy industry, light industry also made rapid progress. Compared with 1957, its output value had increased by 83 percent in 1957, or an average annual growth of 12.9 percent.

During the First Five-Year Plan, China's industrial growth rate outstripped that of major capitalist countries. From 1953 to 1957, China's average annual growth rate was 18 percent, while that of Britain was 4.1 percent and that of the United States was 2.8 percent. With regard to steel, the annual increase rate was 31.7 percent for China, 5.7 percent for Britain, and 3.9 percent for the United States. In the production of coal, the annual growth rate was 14.4 percent for China and only 0.4 percent for the United States, while output in Britain dropped. In electricity output, the increase rate was 21.6 percent for China, 7.8 percent for Britain and 9.1 percent for the United States.

Modern metallurgical industry began to appear in China at the end of the 19th century. But by 1949 the country could only produce 158,000 tons of steel a year. The highest output in old China was only 923,000 tons when the steel produced by the Japanese aggressors in northeast China was included. In New China, steel output in 1957 already reached 5.35 million tons, which was 33.9 times that of 1949, or 5.8 times the highest annual output before liberation.

More than half a century had elapsed since China built its first mechanized coal mine towards the end of the 19th century, but China's coal output in 1949 was only 32.43 million tons, and the highest pre-liberation annual output was only 61.88 million tons. In 1957, however, China's coal output topped 130 million tons, four times as much as in 1949, or an increase of 111.1 percent over the pre-liberation record output.

In the old China, from 1882 when a foreign businessman built the country's first power plant in Shanghai to 1949, energy supply had grown very slowly. Total output of electricity across the nation in 1949 was only 4.31 billion kwh, the highest pre-liberation annual output having reached 5.96 billion kwh. After liberation, however, China's electricity output had reached 19.34 billion kwh by 1957, a 4.5-fold increase over 1949 and a 3.2 fold increase over the pre-liberation record year.

During the First Five-Year Plan, China's industry not only made big progress in output but also was able to turn out many products China had never been able to produce before. In the iron and steel industry, for instance, China could produce high-grade alloy structural steel, special steel for making meters and instruments, silicon steel sheets, steel plates for building ships, seamless steel tubes for making boilers and other important steel products. The varieties of steel products increased from 400 in 1952 to 4,000 in 1957. China's machine-building industry could produce airplanes, trucks, ocean liners, freighters, complete sets of thermal power generating equipment with a capacity of 12,000 kw and hydroelectric power generating equipment with a capacity of 15,000 kw, blast furnaces with a volume of 1,000 cubic metres, combine coal-cutters, as well as more than 200 kinds of new machine tools, automatic telephone switchboards, and complete sets of textiles, paper-making and sugar-refining equipment. By 1957 China was able to produce 86 percent of the steel products and over 60 percent of the machinery it needed.

In 1957 the number of industrial engineering and technical personnel in China was 175,000, a three-fold increase over that of 1952. The number of workers and staff members in the industrial and capital construction departments reached 10.19 million, 66 percent more than in 1952. At the same time, the amount of fixed assets used in production by each worker increased on the average by 49 percent; for motive power machines, the increase was 79 percent; and for electric power, the increase was over 80 percent. In some departments, mechanization had replaced heavy manual labour. Compared with 1952, the workers' labour productivity had increased by 61 percent in 1957, an average annual increase of 9.9 percent. In the five years the production costs in 12 industrial ministries dropped by 29 percent, an average annual decrease of 6.5 percent.

(IV) Agricultural Production

In the five years the state invested a total of 4.18 billion yuan in agriculture, forestry and water conservancy. Agricultural loans in this period amounted to 7.6 billion yuan. In addition, the peasants and agricultural producers' co-operatives also pooled large amounts of funds for expanding agricultural production.

With the exception of 1955 which was a year of rich harvest, the other four years in the First Five-Year Plan period were either normal or lean years. This notwithstanding, agricultural production made fairly big progress in these five years. In 1957 total agricultural output value was 101 percent of the planned target, and this was 25 percent more than that of 1952, an average annual increase of 4.5 percent. The output of major agricultural crops increased by a big margin. For instance, the output of grain in 1957 was 19 percent more than in 1952, or 33 percent more than the peak pre-liberation annual output. The output of cotton in 1957 was 26 percent more than in 1952, or an increase of 93 percent over the pre-liberation record annual output.

In the five years 1953-57, China's cultivated area increased by 58.67 million *mu* (one *mu* equals one-fiftieth of a hectare). The total area under cultivation in 1957 was about 1.677 billion *mu*, which was 101 percent of the planned target. The newly added area under irrigation in the five years was 218.1 million *mu*, equivalent to 69 percent of the total irrigated area in 1952. In 1957 the area grown to agricultural crops throughout the country reached 2.359 billion *mu*, fulfilling the planned target by 104 percent. The multiple cropping area was raised from 131 percent in 1952 to 141 percent in 1957. In the five years, areas where soil and water conservation was under control totalled 203,000 square kilometres.

In these five years, the state invested 2.67 billion yuan in water conservancy projects, averaging 500 million yuan a year, and built the Meishan, Foziling, Nanwan, Boshan, Baisha and Banqiao reservoirs and the Sanhe floodgate, thereby taking a great step forward in harnessing the Huai River.

The Foziling reservoir in the Dabie Mountain area in Anhui Province had a storage capacity of 500 million cubic metres, its reinforced concrete main dam being 500 metres long and 70 metres high. Work on building the reservoir started in January 1952 and was completed in less than three years. During the rainy season in 1954, the reservoir checked the flood peak

coming down from the Pihe River, a tributary of the Huai River, at a speed of 5,100 cubic metres per second.

As part of the effort to control the Haihe River, the Guanting Reservoir was built on the Yongding River, a major tributary of the Haihe. The giant dam harnessed the river and protected the Hebei plain and the cities of Beijing and Tianjin.

With regard to the Huanghe (Yellow) River system, active preparations were being made to harness the river in an all-round way while strengthening its dykes. The construction of the Three Gorges key water conservancy project, a huge project in the great undertaking to harness the Huanghe River, started in April 1957. In addition, the Renmin Shengli Canal was dug on the lower reaches to lead the water of the Huanghe to the Weihe and to irrigate 360,000 *mu* (one *mu* equals 1/15 hectare) of farmland. Thus the Huanghe River, which had for ages been a scourge to the Chinese people, was made to serve the people.

In 1957, the number of tractors used in farm production in China's countryside had increased to 24,629 as against 2,006 in 1952, a 12.3-fold increase.

By the end of 1957, China had 83.82 million head of draught animals, or 9.6 percent more than the 1952 figure. This was also more than the record figure of 71.51 million head before nationwide liberation. In 1957, there were 145.9 million head of pigs in stock, fulfilling the plan by 105 percent. This was also 62.5 percent more than in 1952 or nearly double the figure of 78.53 million head in the peak year before liberation.

The total output of aquatic products reached 3.12 million tons in 1957, fulfilling the plan by 111 percent or 87 percent more than the 1952 figure.

During this five-year plan period, 211.02 million *mu* of land were afforested, and the afforestation plan for this period had been fulfilled one year ahead of schedule.

(V) Transport, Posts and Telecommunications

By the end of 1957, China had 29,862 kilometres of railways, or 22 percent more than in 1952. In this five-year plan period, China restored 3 railway lines and built 33 new lines. It built, repaired or double-tracked 10,000 kilometres of trunk and tributary lines as well as other lines for special purposes. The Baoji-Chengdu and Yingtan-Xiamen Railway lines, which wound their way across mountains, and Changjiang (Yangtze) River bridge at Wuhan were also built.

The construction of the Baoji-Chengdu Railway started on July 1, 1952 and was completed and open to traffic on July 13, 1956. This 668-kilometre-long line extends from Baoji in northwest China's Shannxi Province to Chengdu in southwest China's Sichuan Province, passing through 280 tunnels and over 900 big and small bridges in Shaanxi, Gansu and Sichuan Provinces.

Building of the Yingtan-Xiamen Railway started in February 1955 and was open to traffic in December 1957. The line is 732.4 kilometres long, passing through 46 tunnels and 1,900 bridges and crossing two five-kilometre-long causeways before reaching Xiamen Island. This railway line is of great importance to developing the economy in the mountain regions of Fujian Province and consolidating national defence along the coast.

The construction of the Jining-Frenhot Railway in Inner Mongolia began in May 1953 and was put into service on December 1, 1955. This 335.8-kilometre-long line is linked with the trunk line in the Soviet Union via Ulan Batar in the People's Republic of Mongolia, and is shorter by 1,100 kilometres than the original line which leads to Moscow via Harbin and Manzhouli, thus saving both time and money in importing industrial equipment and raw and semi-finished materials from the Soviet Union and the various People's Democracies in Eastern Europe. The building of the line has also greatly improved communications and transportation in Inner Mongolia and enlivened the economy in that region.

Construction of the Changjiang River bridge at Wuhan started in September 1955 and was completed in September 1957, two years ahead of schedule. The completion of the bridge was a magnificent engineering feat, as the river is wide, the water deep and the flow swift. This and the complicated geological conditions made the construction of the bridge extremely arduous. For more than 40 years before liberation, the reactionary governments made a hullabaloo about building the bridge, but never succeeded. It was only after liberation that this dream of the people became a reality. The bridge which spans the Changjiang River has turned a "deep chasm into a thoroughfare" and greatly facilitated the interflow of goods between the northern and southern parts of the country.

By the end of 1957, there were 250,000 kilometres of highways, double the 1952 figure. Highways from Chengdu in Sichuan Province to Lhasa in Tibet, from Xining in Qinghai Province to Lhasa and from Yecheng in

Xinjiang to Garyarsa in Tibet were also built. The 2,255-kilometre-long Chengdu-Lhasa Highway was opened to traffic on December 25, 1954.

Building of the Xining-Lhasa Highway, 2,100 kilometres long and 4,000 metres above sea level on the average, started in spring 1954 and was completed on December 25, 1954.

For thousands of years Tibet was separated from its neighbouring Sichuan and Qinghai Provinces and other parts of the country by high mountains and numerous rivers. The construction of the above-mentioned highways has further improved the ties between Tibet and other parts of the country, strengthened the unity of the various nationalities and played a great role in promoting the economic and cultural development in Sichuan and Qinghai Provinces and the Tibet Autonomous Region.

In 1957, inland navigation mileage totalled 144,000 kilometres, a 51.6 percent increase over 1952, and 39,000 kilometres of which were navigable by steamboats, or 28.5 percent longer than in 1952. During this period, Zhanjiang harbour in southern Guangdong Province was also built.

In 1957, civil air lines totalled 26,400 kilometres, an increase of 101.5 percent over 1952. On May 20, 1956, an airplane of the General Administration of Civil Aviation of China successfully carried out a trial flight from Beijing to Lhasa on the Tibetan Plateau, the so-called "Roof of the World." For thousands of years, Tibet was accessible only by rugged mountain paths. Though the completion of the Baoji-Chengdu and Yingtan-Xiamen highways has made travel much more convenient, still it takes 15-30 days to travel from Beijing to Lhasa, while flying from Beijing to Lhasa takes several hours only.

In 1957 the volume of goods transported by modern means of conveyance and the volume of turnover of goods exceeded the planned targets by 14 and 15 percent respectively, or 144 and 142 percent more than the 1952 figures. The volume of passengers and volume of turnover of passengers also registered an increase of 159.1 and 100.6 percent over 1952 respectively.

The postal routes in 1957 went up by 72.3 percent over 1952; telecommunications routes increased by 137.4 percent, and postal and telecommunications business volume upped by 72 percent. By the end of 1957, 99 percent of the townships could be reached by post as against only 59 percent in 1952.

(VI) Commerce

The 1957 volume of retail sales of social commodities upped 71.3 percent over that of 1952. Retail sales of major consumer goods in 1957 increased as follows: grain, 23 percent; edible oil, 35 percent; salt, 31 percent; sugar, 87 percent; cotton cloth, 19 percent; rubber shoes, 82 percent; machine-made paper, 54 percent; and cigarettes, 75 percent.

To promote the development of farm and sideline production, the state purchased 58.2 billion yuan worth of farm and sideline products through the state-run commercial departments and the supply and marketing co-operatives in the First Five-Year Plan period, and supplied 14.2 billion yuan worth of means of production to the peasants through these co-operatives. In these five years, the state sold to the peasants 6.201 million tons of chemical fertilizer, 435,000 tons of insecticides, 2.897 million insecticide sprayers and other instruments, 1.645 million two-wheeled double-share ploughs and 535,000 hp power machines.

During this period, prices on the market were basically stable. In order to reduce the "scissors" differences in prices between industrial goods and farm products left over by the old society and enhance the enthusiasm of the farmers for production the state raised the purchasing prices for some farm products in a planned way and appropriately readjusted their marketing prices. Taking the prices in 1952 as 100, the purchasing price index for farm products throughout the country in 1957 was 122.4, the price index for retail sales of industrial goods in the rural areas was 101.6, the price index of retail sales in 29 big and medium-sized cities was 109.5 and the living expenditure index of the workers and staff members in 12 big cities was 109.2.

The total volume of imports and exports in 1957 was 62 percent more than in 1952. Of the imports, the means of production accounted for 93 percent and consumer goods accounted for 7 percent. Among the exports, the proportion of industrial goods and minerals increased from 18 percent in 1952 to 28 percent in 1957.

(VII) Science and Education

After readjustment and reorganization in the colleges and universities, the number of institutes of higher learning had increased from 181 in 1953 to 229 in 1957, an increase of 26.5 percent. These institutes enrolled 563,000 students in these five years, while graduates totalled 269,000. In 1957 there were 441,000 students studying in these institutions, 2.3 times the 1952

figure of 191,000. In 1957, postgraduates who had completed their studies numbered 1,723, or 2.7 times the 1952 figure of 627. In this five-year period, 747 students had finished their studies abroad and returned home. From 1953 to 1957 the secondary specialized schools enrolled a total of 1.119 million students and 842,000 of them had graduated. There were 778,000 students in these secondary schools in 1957, or 22.3 percent more than 636,000 in 1952. The ordinary middle schools enrolled 8.749 million students in these five years, and 4.305 million of them had graduated. In 1957 there were 6.281 million students in these middle schools, or 2.5 times the 1952 figure of 2.49 million. The primary schools enrolled a total of 58.98 million pupils in these five years and 18.52 million of them had graduated. In 1957 there were 64.28 million pupils in the primary schools, 25.7 percent more than the 1952 figure of 51.1 million.

In 1957 there were 580 scientific research institutes staffed by 28,000 researchers, more than three times as many as in 1952.

In addition, great achievements were made in the publication of books and periodicals and in broadcasting, film making and other cultural undertakings.

(VIII) People's Livelihood

The consumption level of the Chinese people in 1957 averaged 102 yuan, or 34.2 percent higher than in 1952 when the average was 76 yuan. The average consumption level of the workers and staff members was 205 yuan, or 38.5 percent higher than the average of 148 yuan in 1952, and that of the farmers had increased from 62 yuan in 1952 to 79 yuan in 1957, an increase of 27.4 percent.

At the end of 1957, there were 24.51 million workers and staff members in the whole country, 206.2 percent more than in 1949, or 55.1 percent more than in 1952. The unemployment problem left over from the old China had been basically solved.

In August 1955, the state decided to institute the wage system, with a unified wage standard to replace the supply system of the past. In 1956 the wage reform was carried out. After the reform, the income of the workers and staff members in 1957 averaged 637 yuan, a 42.8 percent increase over 1952.

During these five years, the state made investments to build 94.54 million square metres of houses for the workers and staff members, and

28.16 million square metres were completed in 1957, which was 13.54 million square metres more than the total of 14.62 million square metres built in the period of economic rehabilitation. The state appropriated a total of 10.3 billion yuan to cover labour insurance and the medical and welfare expenses of the workers and staff members. In 1957, the number of workers and staff who enjoyed labour insurance was 11.5 million, or nearly four and a half times the 1952 figure, and 6.572 million people enjoyed free medical service, which was 64.3 percent more than in 1952.

In 1957 the income of the farmers as a whole rose by nearly 30 percent as compared with 1952. The amount of agricultural tax collected during these five years remained at the 1953 level, but the farmers' burden had been reduced as a result of the steady development of production. Moreover, the differences in the rate of exchange between agricultural and industrial products was reduced as the purchasing prices for farm products had increased while the retail prices for industrial goods remained basically unchanged. All this led to an improvement in the farmers' livelihood. Statistics available at that time showed that the peasants earned an additional 11 billion yuan resulting from the increase in the purchasing prices for agricultural products.

In 1957 there were 364,000 beds in the hospitals and sanatoriums throughout the country, more than four times as many as in 1949. By that time all the counties in China had their own hospitals and most townships had clinics. There were 1.908 million medical workers in 1957, or 83.5 percent more than the 1952 figure.

Savings deposits by the people in both the urban and rural areas in 1957 were more than three times the 1952 figure.

(IX) Economy in Areas Inhabited by Minority Peoples

In order to change the backwardness in the areas inhabited by the minority peoples, the state made a total investment of 3.93 billion yuan, or 7.1 percent of the state's total investment, in capital construction in the various autonomous regions. This brought about a remarkable change in the economy of these areas. Their industrial output value increased by 2.3 times, from 1.14 billion yuan in 1952 to 2.95 billion yuan in 1957. Grain production and livestock breeding also developed rapidly. The mileage of railway lines open to traffic in 1957 was 5,486 kilometres, 44.9 percent more than the 1952 figure of 3,787 kilometres. The mileage of highways open to traffic and postal routes increased 2.6 times and 3 times respectively.

Section II Main Experiences

We had accumulated rich experiences in the socialist transformation and socialist construction in the previous five years. The major experiences are as follows:

(1) Blazing a Road of Socialist Transformation Suited to China's Special Conditions

The socialist transformation of individual agriculture, handicrafts and capitalist industry and commerce must rely on the leadership of the Party, the political power of the proletariat and the strength of the state-owned economy. These were indispensable political and economic guarantees for the accomplishment of the socialist transformation. To ensure success, different policies and forms had to be adopted in the light of the actual conditions. The main method of transforming individual agriculture and handicrafts was to get the individual peasants and handicraftsmen organized step by step according to the principles of voluntary participation and mutual benefit, and gradually replace individual private ownership with collective ownership by the working people through different forms of mutual aid and co-operation. To transform capitalist industry and commerce was not simply to expropriate the capitalists. Instead, we took into consideration the characteristics of China's capitalist class and adopted the policy of buying off the capitalists, i.e., the policy of utilizing, restricting and transforming capitalist industry and commerce, and gradually replaced capitalist private ownership with socialist public ownership through different forms of state capitalism.

During the socialist transformation of agriculture, a nationwide movement for mutual aid and co-operation was launched. This not only gave expression to the wishes of the farmers but also prevented class polarization in the countryside and promoted the development of the rural productive forces. The transformation of the small farmer economy was an extremely arduous and complicated task that required meticulous care. By adopting a series of transitional measures—from organizing temporary mutual-aid teams to year-round mutual-aid teams, and from setting up elementary agricultural producers' co-operatives to advanced agricultural producers' co-operatives—the socialist consciousness of the peasants was

raised gradually, their ways of production and life were changed step by step and they were helped to get accustomed to socialist public ownership. These measures helped avoid damage and losses that might occur because of the abrupt change in the relations of production. From the very beginning of the movement for co-operation in agricultural production, the principles of voluntary participation and mutual benefit, setting up examples for others to follow and state assistance were stressed. In this way, the farmers were guided to participate in the movement of their own will, and measures were taken to ensure that the interests of the middle farmers were not violated. Restrictions were imposed on the rich farmer economy so as to gradually eliminate it, and the rich farmers were finally allowed to join the co-operatives. This practice of combining the elimination of the exploiting class with the remoulding of the exploiting elements minimized the resistance to the co-operative movement.

In the socialist transformation of capitalist industry and commerce, first of all a correct analysis was made regarding the dual character of China's national bourgeoisie. It was considered that while the national bourgeoisie exploited the working class to obtain profits, it supported the Common Programme and the Constitution and was willing to accept socialist transformation. During this period, the state not only had under its control the powerful state-owned economy but, by relying on the firm worker-farmer alliance, kept a tight grip on grain and industrial raw materials. Consequently, capitalist industry and commerce were compelled to accept socialist transformation, making the peaceful transformation of the national bourgeoisie possible.

With regard to private industry, elementary and intermediate forms of state capitalism were adopted to bring about socialist transformation. These consisted mainly of the private enterprises processing goods for the state, accepting state orders, and the state purchasing and marketing their entire output. With regard to commerce, the private enterprises were made retail distributors or commission agents of the state. These forms were gradually replaced by the advanced form of state capitalism—joint state-private operation of individual enterprises and later joint operation by whole trades. These transitional forms of gradually moving from the elementary to the advanced stage enabled the capitalists to accept socialist transformation willingly.

While the principle of utilization, restriction and transformation was adopted towards capitalist industry and commerce, the principle of unity, education and remoulding was adopted towards the capitalists and their agents. The aim was to transform them from exploiters into working people living by their own labour. Politically, the state maintained a united front relationship with the national bourgeoisie whose representatives were invited to participate in the work of the people's governments at all levels. Most members of the national bourgeoisie had to varying degrees a grasp of production techniques and management expertise, and their strong points were brought into play in the course of remoulding their ideology. This not only helped them build up a sense of security and facilitated the smooth changeover of ownership, but also helped transform the great majority of the capitalists and their agents into working people, thereby ensuring social stability and development in production.

(II) Carrying Out Economic Construction in an Orderly and Steady Way and in Accordance With Our Capability

The various economic targets set in the First Five-Year Plan were in general correct and appropriate. But some targets in the annual plans for 1955 and 1956 were either too low or too high which brought certain difficulties to our economic work.

The scale of construction in a country during a certain period must be compatible with its financial and material capabilities. Owing to our large population, huge consumption and low per-capita earnings, to achieve balance in our plan was therefore not easy. It showed that our economic construction was a difficult task which required prolonged and persistent efforts.

Our experience in implementing the First Five-Year Plan proved that in drawing up a long-term plan, we must base ourselves on the requirements and possibilities, and set various targets in a practical and realistic way. In drawing up an annual plan, we must take into consideration the possible conditions for development in that year and the next and actively tap our potentialities so as to fulfil or overfulfil the long-term plan. Under favourable conditions, we must keep an eye on the existing and future unfavourable factors and guard against impetuosity and rash advance. Under unfavourable conditions, we must take note of the existing and future favourable factors and should not hesitate to press ahead with our plan.

In setting targets, we should give due consideration to our capabilities and keep a certain amount of resources in reserve for emergencies. This would put our plan on a more solid basis, and help us cope with unexpected difficulties in the course of implementing the plan. During the First Five-Year Plan period, the materials kept in reserve by the state were not abundant, but they played a considerable role to meeting the needs of production and capital construction, and they also helped ease the tension caused by the shortage of supplies in 1956. This notwithstanding, problems did occur because we did not attach enough importance to keeping a certain amount of materials in reserve. For instance, in 1955 when we had a little surplus of certain goods, we inappropriately increased our export, and in 1956 when the scope of capital construction was expanded, the result was serious shortage of these materials. This showed that for both the state and the enterprises, planning should be strengthened with regard to material reserves.

(III) Concentrating the Forces on Building Key Projects

In 1953 when large-scale economic construction started, the country faced an urgent problem which required immediate solution. What principles should we follow in economic construction? Should we try to build everything all at once or should we concentrate our efforts on building the key projects? We selected the latter which totally conformed with our country's actual conditions. Although our national economy had undergone three years of rehabilitation and our industrial and agricultural production had reached or even surpassed the highest level before the war, the level of development of our economy as a whole was still quite low and our financial, material and technical forces were very limited. If we did not concentrate our limited resources on building the key projects but began full-scale construction irrespective of the order of importance and urgency, our limited resources would have been used in a scattered way and we would have achieved little or nothing. To build everything all at once was therefore not practical, nor did it conform with the long-term interests of our country and people.

Having decided on the principle of putting the stress on key projects, the first step we took was to correctly choose the projects we should build first. The emphasis of economic construction varied in different historical periods. Generally speaking, apart from making arrangements for key

national defence projects in the light of the international situation, our main consideration was given to projects which were the weakest links in the national economy, which would affect the whole situation, and which were the most urgently needed items at that time. Also we must be sure that we had the conditions to build them. Of the 156 key projects in the First Five-Year Plan, although national defence projects took up a certain proportion, the majority were still civilian projects related to the coal, electric power, machine-building, metallurgical, petroleum and chemical industries. There were also some light industrial and water conservancy projects, but the number was quite small.

After the decisions were taken, another important task was to carry out propaganda work among the people and mobilize them to do their part in national economic construction. In the 1950s, the number "156" was practically a household word. The people of the whole country were of one mind, putting national interests above everything else. Their concerted efforts ensured smooth progress in the building of these projects.

It was also imperative to concentrate financial and material resources and labour power on the building of key projects. At that time the loans extended to us by the Soviet Government were very limited, accounting for only 2.7 percent of our state revenue in those five years. We mainly relied on our own efforts to get the funds needed in construction. In those five years, the state pooled more than 130 billion yuan which accounted for about one-third of the total national income during that period, and the state appropriated 50 billion yuan for capital construction in the same period, accounting for 37 percent of the state's total expenditures. Of the total investments in capital construction, state investment accounted for 90 percent, and the remaining 10 percent were raised by the various localities themselves.

In the First Five-Year Plan period, the proportion of materials controlled by the state (either to be allotted in a unified way by the state or controlled by the different ministries under the State Council) gradually reached 70 to 90 percent of the total resources of these materials. The central authorities also transferred 10,000 outstanding cadres from various sectors to strengthen the leadership of the industrial departments and key enterprises. Efforts were also made to raise the technical level of existing technicians and workers. Many engineers and technicians who had changed

their professions were requested to return to their former posts where they could give play to their talents. In addition, the various institutes of higher learning helped train a large number of personnel needed in economic construction. All this basically met the need for qualified personnel.

Because the central authorities adhered to the principle of giving priority to key projects, more than half of the 156 projects had either been completed on schedule or partially completed and put into operation by the end of 1957. These projects later became the foundation and mainstay of the following five-year plans.

(IV) Attaching Importance to the Development of Agriculture and Light Industry and Maintaining the Proportionate Development of Agriculture, Light Industry and Heavy Industry

Agriculture occupies an extremely important position in the national economy. During the First Five-Year Plan, China's agricultural net output value made up two-thirds of the gross industrial and agricultural net output value. Of the total industrial output value, half came from industries using farm products as raw materials, and three-fourths of our exports were farm products or processed farm products. During that period, state revenue derived directly or indirectly from farm products accounted for 54-58 percent of the total. Due attention was therefore given to the proportionate development of agriculture, light industry and heavy industry.

Related documents issued during the First Five-Year Plan period clearly pointed out that to develop agriculture constituted the basic condition for the growth of industry and the fulfilment of the economic plan as a whole. The documents also pointed out that while giving priority to the development of heavy industry, efforts must be made to maintain a proper proportion in the development of the various economic sectors; in particular, the right proportion must be maintained between industry and agriculture and between heavy industry and light industry.

During the First Five-Year Plan, the average annual increase of our country's agricultural output value was 4.5 percent; for light industry, it was 12.9 percent and for heavy industry, 25.4 percent. The country's total industrial output value increased at an average rate of 18 percent a year; and for national income, the increase was 8.9 percent. These figures showed that heavy industry developed rapidly during this period, thereby laying the foundation for the country's industrialization. This was quite necessary.

Meanwhile, the development of agriculture and light industry was also quite fast, which basically met the people's needs in their daily life and provided funds for the development of heavy industry. In a word, these three sectors basically developed in a proportionate way.

However, there were already signs of disproportionate development between agriculture, light industry and heavy industry during the First Five-Year Plan period. For instance, agricultural and light industrial production was not stable, and the supply of agricultural products fell short of demand in some years. This was especially so in the lean years. Thus the state had to adopt the policy of planned purchase and marketing of grain, cotton, edible oil and other major agricultural products. Moreover, due to the shortage of agricultural raw materials, the light industrial factories often had to operate under capacity. And as a result of the crop failure in 1954, there was only a 5.6 percent increase in the country's total industrial output value in 1955, the lowest rate of increase during the First Five-Year Plan. The utilization rate of the production capacity of local industries was adversely affected in the first half of 1955. For instance, the utilization rate of cotton yarn production capacity was only 75 percent; cotton cloth and edible oil, 62 percent; flour, 56 percent; and cigarettes, the most seriously affected, only 24 percent.

Similarly, the poor harvest in 1956 brought the utilization rate of cotton yarn production capacity down to 83 percent in 1957. The latent potentialities of light industry could not be brought into full play. Apart from the fact that more than 80 percent of the raw materials for light industry came from agriculture, one other important reason was that we did not pay enough attention to developing heavy industry as a source of raw materials for the light industry. In 1952, the proportion of light industrial enterprises using industrial products as raw materials was 12.5 percent, and it rose only to 18.4 percent in 1957.

In heavy industry, not enough attention was paid to gearing its production to the needs of agriculture and light industry. This was mainly reflected in the small amount of investment in industries turning out products in aid of agricultural production. In 1957, for instance, only 13.5 percent of the total heavy industrial output value was directly used in agriculture. The investment in the five years in heavy industrial projects directly serving agriculture only accounted for 3.3 percent of the total investment in heavy industry. Of the 156 projects built with Soviet aid, there

was only one tractor plant and three chemical fertilizer plants. Although the conditions for the innovation of farming techniques on a large scale were not ripe during this period, preparation for such a drive could have been made.

(V) Correctly Handling the Proportionate Relationship Between Accumulation and Consumption

The accumulation rates during the First Five Year Plan were as follows: 23.1 percent in 1953, 25.5 percent in 1954, 22.9 percent in 1955, 24.4 percent in 1956, and 24.9 percent in 1957. This showed there was only a slight difference from year to year. The scale of construction during this period was quite large, but the accumulation rate only averaged 24.2 percent, up 2.8 percent over that of 1952. During the same period, the consumption level of the workers and peasants throughout the country increased fairly rapidly. Thus a proportionate relationship between accumulation and consumption was achieved in the main.

On the basis of our experience gained in economic development during the First Five-Year Plan period and in view of the political and economic development of our country, Bo Yibo, then Chairman of the State Economic Commission, proposed at the Eighth National Congress of the Communist Party of China that the ratio between accumulation and consumption should be 2:3:4. In other words, the proportion of accumulation from the national income should be no less than 20 percent or a little higher; the proportion of our national income going to the budgeted state revenue should be no less than 30 percent or a little higher; and the proportion of our budgeted state expenditure going to capital construction should be no less than 40 percent or a little higher. These were only rough estimates and could not possibly remain unchanged under all circumstances. Nevertheless, they were of value to the drawing up of long-term and yearly plans.

In determining the ratio between accumulation and consumption, the following factors should be taken into account:

(1) The ratio between accumulation and consumption should be in keeping with the right proportion between industry and agriculture, and making arrangements for the proportionate development of agriculture, light industry and heavy industry was of decisive importance. The development of heavy industry and the expansion of accumulation could not be separated from the level of social production at that time, nor could they be separated from the development of agriculture and light industry. In

particular, they could not be separated from the development of agriculture which was the foundation of the national economy. When there was an increase in agricultural production in 1952 and 1955, for instance, favourable conditions were created for an increase in accumulation in 1953 and 1956.

(2) The steady rise of productivity was an important condition for the gradual improvement of the people's living standard and an increase in accumulation. In 1957, the yearly gross output value per worker or staff member in industrial enterprises amounted to 8,234 yuan (counted according to the fixed prices in 1952, the same for the following figures), an increase of 5,423 yuan or 51.8 percent over 1952. The workers' real wages for the same period rose 23 percent, and the financial revenue from the industrial enterprises registered a 176 percent increase in 1957 over 1952. As for agriculture, the annual gross output value of each able-bodied farmer increased from 280 yuan in 1952 to 319 yuan in 1957, or an increase of 13.9 percent. Thus, not only had the farmers' livelihood improved and agricultural accumulation increased, but the amount of grain collected (as agricultural tax in kind) and purchased by the state in 1957 was 14.77 billion kilogrammes more than in 1952.

(3) Capital construction scale should be brought under strict control. This was of great importance to achieving a proper ratio between accumulation and consumption. As described above, if the scale of capital construction was too large and if we overextended ourselves in our endeavours, the result would be a huge recruitment of new workers, which would in turn create certain tensions on the market and affect the people's livelihood. Moreover, labour power, material and financial resources would inevitably be spread out over an extensive area, which would adversely affect the economic results of construction. Giving consideration only to the requirements of construction to the neglect of the possibilities of financial and material resources would undoubtedly hamper construction and affect the people's livelihood.

(4) While making reasonable arrangements for the accumulation of funds, attention should be paid to using the accumulated funds efficiently, i.e., spending less money to do more things.

(5) The existing enterprises should be enabled to play their full role, and the relationship between the industries in the coastal areas and the hinterland and between building new factories and expanding and revamping old ones should be correctly handled.

While drawing up the First Five-Year Plan for the development of production, it was clearly pointed out that full use should be made of the production capacity of existing enterprises. Before 1949, China's industries were mostly concentrated in the coastal areas, and there were few industries in the hinterland. This resulted in a very uneven development of the economy in the different areas. According to the statistics available in 1952, the output value of the industries in the coastal provinces made up about 70 percent of the nation's total, while barely 30 percent were contributed by industries in the hinterland. Heavy industry was concentrated mainly in Liaoning, Heilongjiang and Hebei Provinces. About 80 percent of the iron and steel plants, for example, were located in the coastal areas, in northeast China's Anshan city in particular. Most of the light industrial enterprises were in Shanghai and Tianjin municipalities and in Jiangsu and Guangdong Provinces. In the textile industry, for instance, 80 percent of the spindles and 90 percent of the looms were in the coastal cities of Shanghai, Tianjin, Qingdao and Dalian. This being the case, to make full and rational use of the industries in the coastal areas constituted a major condition for building up new industrial bases and accomplishing socialist industrialization in our country.

With due consideration for the possibility that the imperialist countries might unleash a war of aggression against our country and with a view to changing the uneven development of China's industries, energetic efforts were made to build industries in the inland provinces during the First Five-Year Plan period. About half of the nation's total investment in this period went to capital construction in the inland areas. And 53 percent of the large and medium-sized new industrial enterprises were built in the hinterland. A number of heavy industrial enterprises were set up in Wuhan, Taiyuan, Xian, Baotou and Lanzhou, which greatly changed the previous irrational geographical distribution of industries in the whole country. Meanwhile, attention was also paid to tapping the potential of industries in the coastal areas and making them serve as the foundation for the industrialization of the country as a whole.

For example, they supplied some of the equipment and materials needed in construction. China's existing enterprises had to manufacture 30-50 percent of the equipment as well as other necessary products and materials for the key projects being built with Soviet aid at the time. The burden was shouldered mainly by the industries in the coastal areas.

The Anshan Iron and Steel Company, for instance, produced in 1955 rolled steel to meet the needs of more than 2,000 enterprises and construction projects in the country. The 370 new products it successfully trial-produced for 694 key projects accelerated the pace of construction of the Baotou Iron and Steel Complex, the Wuhan Iron and Steel Company, the Changchun No. 1 Motor Vehicles Plant, a tractor factory and other important projects.

During this period, the accumulation of funds from industry was also mainly provided by the enterprises in the coastal areas. The amount of profits and taxes handed over to the state by enterprises in Shanghai alone from 1949 to 1955 made up 20.9 percent of the nation's total investment in capital construction during the First Five-Year Plan.

The number of skilled workers, engineers, technicians and managerial personnel needed by the newly built enterprises were mostly trained by the enterprises themselves, and only a small number were trained in the various types of schools. From 1950 to early 1956, Shanghai sent 210,000 workers, staff members and cadres to various parts of the country, including 63,000 skilled workers and 5,400 engineers and technicians. In addition, it helped train over 8,000 apprentices for the various trades.

Enterprises in the coastal areas also played an important role in satisfying the people's needs in their daily life. Since heavy industrial enterprises produced the means of production and their construction period was long, they could not turn out within a short time products needed on the market. The task of satisfying the needs of the national economy and the people's life depended, therefore, on the existing enterprises. Light industrial enterprises in the coastal areas made up a considerable proportion in the country at that time. In Shanghai, for example, the output of cotton yarn and cotton cloth as well as cigarettes accounted for one-third of the country's total output, and the city supplied 60 percent of the goods for daily use.

To give full play to the existing enterprises, they were revamped and expanded. Compared with building new enterprises, the upgrading and expansion of existing enterprises needed less investment but yielded quicker economic results because they already had a good foundation, enjoyed good relations with other units and were staffed by skilled workers.

During this period, 46.4 percent of the nation's total investment went

to the newly built enterprises, and 52.3 percent were used to renovate and expand the old enterprises. It was entirely necessary to build a large number of new enterprises in that period, otherwise the building of an independent and relatively complete industrial and national economic system would be out of the question. At the same time, the task of revamping and expanding the existing enterprises was also given due attention. In doing this work, proper attention was paid to the supply of raw materials, market needs, economic results, transportation conditions, city planning, and rational geographical distribution of the industries. These and other factors were taken into account, and not all the existing enterprises were included in the plan for technical transformation.

During the First Five-Year Plan period, not only did the economy develop rapidly but good economic results were obtained. Every 100 yuan of accumulation provided an average national income of 35 yuan. After deducting the non-production accumulation, every 100 yuan of production accumulation provided 60 yuan of national income.

The average construction period for large and medium-sized projects in various parts of the country was 6 years. The rate of fixed assets of capital construction put to use averaged 83.7 percent; every 100 yuan of social product consumed an average of 44.3 yuan of materials, and with every ton of energy produced, 116 yuan of national income was created.

During the First Five-Year Plan period, the total industrial output value provided by every 100 yuan of fixed assets in state-owned industrial enterprises was 138 yuan in 1957, and every 100 yuan of funds in these enterprises provided 34.7 yuan of profit and taxes. The cost for every 100 yuan of income from sales in state-owned enterprises averaged 68.6 yuan, and the amount of circulating fund for every 100 yuan of output value averaged 28.4 yuan. The turnover rate of circulating funds was three months on the average.

The amount of national income created by each social labourer increased on the average by 6.3 percent a year. The average per-annum increase of labour productivity in state-owned industrial enterprises was 8.7 percent.

Various factors contributed to the good economic results achieved in the First Five-Year Plan period.

First, economic decisions were taken in line with the actual conditions,

with due consideration for the country's capabilities, and work proceeded in a steady manner and under careful and circumspect guidance.

Second, attention was paid to achieving overall balance in the national economy, thereby obtaining good results in the macroeconomy, which was conducive to the development of the national economy as a whole and the long-term economic growth. This created favourable conditions for the economic activities of the various enterprises.

Third, great attention was paid to the cost of production, labour and financial administration of the enterprises, and their economic accounting was strengthened. When the planning departments assigned production tasks, they took economic results into account and made overall arrangements. In this way, decisions on the macroeconomy and the overall balance of the national economy were effectively carried out through microeconomic activities. In turn, good microeconomic performance would lead to still better macroeconomic results.

Finally, great efforts were made to implement the policy of building up the country through thrift and hard work. Once wastes and losses in economic construction were discovered, they were quickly exposed and corrected.

Part III

The "Great Leap Forward" and Readjustment Of the Economy (1958-65)

XIV Exploring New Ways of Socialist Construction

Section I Following China's Own Road of Construction

In 1956 China entered a new historical period, a period of large-scale and all-round socialist construction.

At that time, the proportion of state-owned economy, co-operative economy and joint state-private economy in the entire national income had increased to 92.9 percent from 21.3 percent in 1952, and the economic activities of the various departments had through different forms been brought into the orbit of a unified state plan or put under its guidance. The contradiction between the proletariat and the bourgeoisie in the country had in the main been solved, the age-old system of class exploitation had been basically abolished, and the transition from new-democratic revolution to socialist revolution and socialist construction had been accomplished.

After carrying out construction in the First Five-Year Plan period, we had built a number of modern key enterprises, trained a large contingent of technical personnel and accumulated some experiences in economic construction. However, since China was beginning to build socialism on the ruins of a semi-colonial and semi-feudal society, its modern industry accounted for only 24.9 percent of the total industrial and agricultural output value after three years of economic rehabilitation and five years of development, and its average per-capita income was only 142 yuan in 1957. Therefore, how to further accelerate socialist construction had become a pressing problem.

In January 1956 Mao Zedong said at the Supreme State Conference that the Chinese people should have a long-range plan and strive over a period of several decades to put an end to the nation's economic, scientific and cultural backwardness so as to speedily catch up with the advanced world level. Meanwhile, the Central Committee of the Chinese Communist Party

submitted the draft of the 1956-67 National Programme for Agricultural Development to the Supreme State Conference for discussion, and at the same time made it known to the people throughout the country. According to a suggestion made at a national conference of intellectuals, a number of scientists were organized to draw up the 1956-67 National Plan for the Development of Science and Technology.

In September 1956, the Eighth National Congress of the Chinese Communist Party correctly analysed China's political and economic situation and pointed out that the main task for the whole Party and the people of the whole country was to concentrate all forces on developing the productive forces and transform China from a backward agricultural country into an advanced industrial country as quickly as possible. The congress formally adopted the proposals for the Second Five-Year Plan drawn up under the personal guidance of Zhou Enlai. The basic tasks listed in the plan were: (1) to carry out industrial construction centring around heavy industry, speed up the technical transformation of the national economy and lay a solid foundation for China's socialist industrialization; (2) to accomplish the task of socialist transformation, consolidate and expand ownership by the collective and ownership by the whole people; (3) further develop industrial, agricultural and handicraft production and appropriately develop transportation and commerce; (4) make great efforts to train qualified personnel for national construction and upgrade scientific research work; and (5) strengthen national defence and improve the people's material and cultural well-being.

The said proposals set forth the following major targets for the five years: Total industrial and agricultural output value was to increase by about 100 percent and 35 percent respectively; steel output was to reach 10.5-12 million tons by 1962; the proportion of capital construction investment in the state's total revenue was to increase from 35 percent in the First Five-Year Plan to about 40 percent; the total amount of investment in capital construction was to increase by about 100 percent; and the average income of the workers and farmers was to increase by 25 percent to 30 percent.

During the First Five-Year Plan period, we successfully blazed a trail of socialist transformation suited to China's specific conditions. In the past we practically had no experience at all in organizing and managing modern industry and the national economy as a whole, and so in many aspects we

learnt from the experience the Soviet Union had gained in construction. As the first socialist country in the world, the Soviet Union had acquired approximately 30 years of experience in economic construction at that time. To learn from the Soviet Union was quite necessary. Moreover, it helped us in our construction during the First Five-Year Plan period. But China's actual conditions were different from those of the Soviet Union. Because of reactionary imperialist and feudal rule, China began building its own modern industry one or two centuries later than the developed countries. Moreover, because China had a large population and a poor economic foundation, it was inevitable that it had to undergo a more arduous and prolonged struggle in building socialism.

In the meantime, the experience gained in implementing the First Five-Year Plan showed that while there were many useful things for us to learn from Soviet economic construction, there were also serious defects and many things not suited to China's conditions. After the 20th National Congress of the Communist Party of the Soviet Union, many problems in Soviet economic construction began to surface. These included lopsided development of heavy industry to the neglect of agriculture and light industry, excessive increase of accumulation and neglect of the people's well-being, and an overly centralized and rigid system of economic management. All these exposed the limitation of the Soviet experience in economic construction.

When China entered a new period of large-scale and all-round socialist construction, the situation compelled us to explore our own road of socialist construction in the light of the nation's actual conditions.

Section II Initial Results in Our Explorative Efforts

We began probing new ways of building socialism in early 1956. In accordance with the requirements of the Party Central Committee, 34 departments in charge of economic affairs gave detailed reports of their work to the leading officials of the central authorities. In April that year, on the basis of the collective wisdom of the Party Central Committee, Mao Zedong delivered his famous report "On the Ten Major Relationships," and put the task of probing new ways of building socialism before the whole Party.

The report, taking note of the shortcomings of the Soviet experience, initially summed up China's own experience in economic construction over the previous few years and made incisive expositions on the necessity to correctly handle the ten major relationships in China's future construction. The report pointed out that in socialist construction, it was also necessary to rely on the workers and peasants who constituted the basic force and to win over the middle forces, correctly do our work with regard to the reactionary forces and turn this negative factor as far as possible into a positive one, so as to rally all the forces both internal and international as well as direct and indirect, and strive to make China a powerful socialist country.

The report expounded several important principles on economic construction, which can be summed up mainly as follows: First, it was necessary to correctly handle the relationships between accumulation and consumption and between heavy industry on the one hand and light industry and agriculture on the other. Consideration must be given to the interests of the state, the production units and the producers. While advocating the spirit of hard work and opposing the practice of placing personal material interests above everything else, it was necessary to show concern for the people and oppose bureaucracy which paid no attention to the well-being of the people.

The stress in our country's construction was on heavy industry. The manufacture of the means of production must therefore be given priority. However, the production of the means of subsistence, especially grain, must not be neglected. Only when greater efforts were made to develop agriculture and light industry was it possible to ensure the needs of the people in their daily life, increase the accumulation of funds and promote the development of heavy industry.

Second, it was necessary to solve the question of rational distribution in economic construction. In order that our industries would be evenly distributed, major efforts should be made to develop industry in the interior. At the same time, however, it was necessary to fully use and develop the industries in the coastal regions, so that we would be in a better position to develop and support the industries in the interior.

Third, it was necessary to readjust the system of economic management. In order to build a powerful socialist country, it was essential to have a strong and unified central leadership. But it was necessary to

enlarge the powers of the local authorities to some extent, give them greater independence and let them do more, all on the premise that the unified leadership of the central authorities was to be strengthened. It was necessary to give the factories some decision-making powers so that every production unit would have independence as the correlative of centralization.

Fourth, it was necessary to effectively handle the relationship between learning and creating. We must learn from the strong points of all nations and all countries, including the advanced sciences and technologies of capitalist countries and their scientific management of enterprises. But we must learn with an analytical and critical eye, and we must never copy them indiscriminately or transplant them mechanically.

The line adopted at the Eighth National Congress of the Chinese Communist Party held in September 1956 was an important milestone in China's socialist construction.

The Eighth Party Congress correctly analysed the new changes in the class relationship at home after the completion of the socialist transformation of agriculture, handicrafts and capitalist industry and commerce, and decided to shift the focus of the Party's work to socialist construction. The congress pointed out that the socialist system had been basically established in China and that the principal contradiction at home was no longer one between the working class and the bourgeoisie, but one between the people's need for rapid economic and cultural development and the inability of China's economy and culture at that time to meet that need. The major task of the Party and the people of the whole country was to concentrate all efforts on developing the social forces of production and transform China as quickly as possible from a backward agricultural country into an advanced industrial one.

The Eighth Party Congress continued to uphold the principle of opposing both conservatism and rash advance in economic construction as put forward by the Party Central Committee in May 1956, which was the principle of advancing steadily while achieving an overall balance. In his report on the Proposals for the Second Five-Year Plan delivered to the congress on behalf of the Party Central Committee, Zhou Enlai said that we should, in accordance with the needs and possibilities, set a reasonable rate for the growth of the national economy and place our plan on a forward-looking and sound and reliable basis so as to ensure a fairly balanced

development of the national economy. At the same time, it was necessary to co-ordinate the building of key projects with overall arrangements, so that the various branches of the national economy could develop proportionately. It was also necessary to build up our reserves, improve our system of stockpiling materials, and correctly handle the relationship between economic and financial affairs.

After summing up the lessons of rash advance that occurred in 1956 and the experience of the subsequent readjustment of the national economy, Chen Yun pointed out that the scale of construction must be commensurate with our national capabilities. In carrying out large-scale construction in such a big country as China, the economy could remain stable only when the scale of construction was in keeping with the nation's financial and material resources. To guard against the danger that the scale of economic construction went beyond the nation's capabilities, it was necessary to do the following: First, financial revenue and expenditure and bank credit must be balanced and with a little surplus. Second, the supply of important raw and semi-finished materials must be distributed in the order of importance. It was of primary importance to ensure the minimum needs of production units producing daily necessities; next, the needs for producing the essential means of production must be ensured, and the remaining raw materials should be used in capital construction. Third, the people's purchasing power should be raised to the extent that was appropriate to the amount of consumer goods available. Fourth, to achieve a balance between the scale of capital construction and the financial and material resources, it was necessary to take into consideration not only the needs of a particular year but also the needs of the subsequent years. Fifth, in deciding on the scale of construction, it was necessary to fully consider whether the scale was compatible with the development of agriculture.

Bo Yibo proposed that the proportion of accumulation in the national income should be no less than 20 percent or a little higher; the proportion of budgeted revenue in the national income should be no less than 30 percent or a little larger; and the proportion of budgeted state expenditure going to capital construction should be no less than 40 percent or a little higher.

In view of the fact that China's commodity production was not developed and that the needs for products in construction and in the people's livelihood were very complicated, Chen Yun stressed that while state-run

and collectively owned enterprises were the mainstay of industry and commerce, there should be a certain number of individually owned enterprises. While the major portion of industrial and agricultural products should be produced according to plan, some products could be produced freely within limits permitted by the state plan according to the changes on the market. The unified socialist market should have the state market as its main body, but it should at the same time include a free market led by the state and operating within certain limits, serving as a supplement to the state market. His suggestion was accepted and written into the Resolution of the Eighth National Congress of the Chinese Communist Party.

Later Mao Zedong pointed out the need to develop commodity production and to pay attention to the law of value. In view of the defects existing in the Soviet method which China had totally followed in the supply of the means of production, namely, a method of production and allocation under a single state plan, Liu Shaoqi proposed that some capital goods could be circulated as commodities on the market, thereby further clarifying the idea of giving play to the law of value and the role of the market under the conditions of the planned socialist economy.

Taking note of the defects in the Soviet method of enterprise management which paid no attention to political and ideological work and the mass line, the Eighth National Congress of the Chinese Communist Party decided to establish in industrial enterprises a system of leadership which combined collective leadership and personal responsibility and the Party committee as the nucleus.

Later, Deng Xiaoping proposed that the system of congress of representatives of workers and staff members under the leadership of the Party committee be instituted so as to expand the scope of democracy in the enterprises, enable the workers to take part in management and exercise supervision over the administration so as to overcome bureaucracy.

After the realization of agricultural co-operation, the level of productive forces was still very low, and the development of agriculture relied mainly on the peasants' enthusiasm for production. In view of these concrete conditions, Deng Zihui proposed that the setting up of a strict production responsibility system within the co-operatives was an important link in consolidating the collective economy. The Party Central Committee later decided to establish a system under which the agricultural producers'

co-operatives were run democratically so that the farmers could exercise their rights as masters of the country.

In February 1957 Mao Zedong delivered his famous speech "On the Correct Handling of Contradictions Among the People," which clearly pointed out that in socialist society there existed two types of social contradictions totally different in nature, and that the correct handling of contradictions among the people should be regarded as a general subject.

The speech pointed out: In socialist society the basic contradictions are still those between the relations of production and the productive forces and between the superstructure and the economic base. China's socialist system is in correspondence with the character of the productive forces. However, this system is still not consolidated, certain links are not perfect and the people are not accustomed to the new system. These manifest themselves at the present stage as contradictions among the people whose interests are fundamentally identical. These contradictions are non-antagonistic and can be solved one after another through the socialist system itself. With regard to contradictions among the people, politically it is necessary to apply the principle of "unity-criticism-unity," that is to say, starting from the desire for unity, resolving contradictions through criticism or struggle and thereby arriving at new unity on a new basis.

In scientific and cultural work, it is necessary to put into practice the principle of "letting a hundred flowers blossom and a hundred schools of thought contend;" in economic work, it is essential to implement a series of principles of making overall planning for the various strata in the cities and countryside and giving consideration to the interests of the state, the collective and the individual.

The speech pointed out: Today, matters stand as follows: The large-scale, turbulent class struggles of the masses characteristic of times of revolution have in the main come to an end, but class struggle is by no means entirely over. The main task in the future is to correctly handle the contradictions among the people, in order to unite the people of all nationalities in our country for the new battle, the battle against nature, develop our economy and culture, and build up our new state.

The speech reiterated the necessity of correctly handling the relationships between agriculture, light industry and heavy industry, stressing the fact that China is a large agricultural country with over 80

percent of its population in the rural areas. While taking heavy industry as the central link in economic construction, it was necessary to fully develop agriculture and light industry and implement the policy of simultaneously developing industry and agriculture. This should be China's path to industrialization. As for the contradiction between production and demand, which had existed for a long time in the society, a balance was achieved through regulation by the state plan. Herein lay the superiority of a planned economy.

The above-mentioned explorative efforts can be summed up as follows: First, correctly analysing and expounding the main internal contradiction in the period shortly after the establishment of a socialist society in China and taking the concentration of forces on developing the social productive forces as the major task. Second, changing the past basic method of relying mainly on class struggle to promote social and economic development and taking the correct handling of the contradictions among the people and the mobilizing of all positive factors as the motive force in developing the economy. Third, correctly handling the basic proportionate relationships between accumulation and consumption, between heavy industry on the one hand and agriculture and light industry on the other, and between the economy and national defence, persisting in the economic construction policy of making overall planning and advancing steadily while achieving an overall balance. Fourth, developing socialist commodity production and the exchange of goods and giving play to the auxiliary role of market regulation while practising a planned economy; reforming the system under which the power of economic management was over-centralized and readjusting the economic relations between the central and local authorities and the enterprises.

Section III Putting Forward the General Line for Building Socialism

As early as 1955 Mao Zedong had on many occasions stressed the necessity of adopting the method of achieving greater, faster and better results in leading various fields of work. In October 1957 he again put

forward this question, saying: "Can't we avoid the Soviet Union's detours and do things faster and better? We should of course strive for this." He also said: "As a matter of fact 'better' and 'more economical' are meant to restrict 'greater' and 'faster.' 'Better' means better in quality, 'more economical' means spending less money, 'greater' means doing more things, and 'faster' also means doing more things. This slogan is self-restricting, since it calls for better and more economical results, that is, for better quality and lower cost, which precludes greater and faster results that are unrealistic.... Our demand for greater, faster, better and more economical results is realistic, in conformity with the actual conditions and not subjectivist. We must always do our utmost to achieve greater and faster results; what we oppose is only the subjectivist demand for greater and faster results." ("Be Activists in Promoting the Revolution.")

At the Chengdu Conference convened by the Party Central Committee in March 1958, Mao Zedong put forward the general line of going all out, aiming high and achieving greater, faster, better and more economical results in building socialism. In May of the same year, this general line and its essential points were formally adopted at the Second Session of the Eighth National Congress of the Chinese Communist Party.

In his political report to the session, Liu Shaoqi said: "The Central Committee of the Party is of the opinion that the following are the basic points of our general line, which is to build socialism by exerting our utmost efforts, and pressing ahead consistently to achieve greater, faster, better and more economical results:

To mobilize all positive factors and correctly handle contradictions among the people;

To consolidate and develop socialist ownership, i.e., ownership by the whole people and collective ownership, and consolidate the proletarian dictatorship and proletarian international solidarity;

To carry out the technical revolution and cultural revolution step by step, while completing the socialist revolution on the economic, political and ideological fronts;

To develop industry and agriculture simultaneously while giving priority to heavy industry;

With centralized leadership, overall planning, proper division of labour

and co-ordination, to develop national and local industries, and large, small and medium-sized enterprises simultaneously; and

By means of all this to build our country, in the shortest possible time, into a great socialist country with modern industry, modern agriculture and modern science and culture."

This general line for building socialism, which was adopted at the Second Session of the Eighth National Congress of the Chinese Communist Party, reflected the urgent demands and strong desire of the people, after changing the old relations of production, to develop the productive forces and put an end to the nation's economic and cultural backwardness as quickly as possible. It had also absorbed the many positive results achieved in the search for a new road to build socialism. On the other hand, however, while this general line stressed giving play to people's subjective initiative, it neglected the necessity to strictly observe the objective economic law.

At that time, the First Five-Year Plan was fulfilled ahead of schedule and the people were full of vigour in building socialism. But with the great successes achieved in socialist revolution and economic construction, there grew within the Party the feeling of arrogance and conceit. During the struggle against a handful of bourgeois Rightists in the summer of 1957, the scope of struggle was mistakenly broadened. As a result, a number of cadres within the Party, intellectuals and patriotic personages were wrongly labelled as Rightists. This drastically changed the assessment of the whole situation and adversely affected the search for a new path in building socialism in China.

At the Third Plenary Session of the Eighth Central Committee of the Chinese Communist Party held after the struggle against the Rightists, Mao Zedong made an analysis of the internal situation and said that the contradiction between the proletariat and the bourgeoisie and the contradiction between the socialist and the capitalist roads were undoubtedly the major contradictions in socialist China at that time. This altered the correct formulation in the resolution adopted at the Eighth National Party Congress; it magnified the struggle between the two classes and between the two roads that existed within a certain scope and regarded it as the main contradiction of the whole society. Although this wrong thesis did not immediately affect the shift of focus of the Party's work, it began to

have serious effects on the Party's economic work and policy towards intellectuals.

The question of intellectuals occupied an important position in China's socialist construction; it was a question that was first taken up in the struggle against the Rightists. In old China, science, education and culture were very backward and not many scientists, technicians and managerial personnel were trained. This being the case, how to arouse the people to attach importance to the study of science and culture and be good at uniting with and using the existing limited number of intellectuals had become an arduous task that brooked no delay.

This question drew the attention of the Party Central Committee shortly after the founding of the People's Republic. At the conference on the question of intellectuals convened by the Party Central Committee in January 1956, Zhou Enlai pointed out in his report that the overwhelming majority of China's intellectuals had become part of the working class and that socialist industrialization "Must rely on the close co-operation between manual and mental labour and on the fraternal alliance of the workers, peasants and intellectuals."

At the conference Mao Zedong also called upon the whole Party to study science, unite with the intellectuals outside the Party and strive to quickly catch up with the advanced world level in science.

After the conference a new situation emerged throughout the country, in which the people studied hard and tried to master science. Before long, however, with the scope of the struggle against the Rightists enlarged, the overwhelming majority of the people wrongly labelled as Rightists were intellectuals, and the correct assessment made at the conference regarding the position and role of intellectuals was rejected. Undue emphasis was laid on the need of intellectuals to thoroughly remould their world outlook, and those intellectuals who devoted themselves single-mindedly to scientific research were criticized. All this violated the correct principles already laid down and greatly dampened the initiative of the intellectuals.

The enlargement of the scope of struggle against the Rightists directly affected the guidelines for the economic work. Consequently, the movement against adventurist advance in 1956 was dug up and subjected to criticism again. The so-called "anti-adventurist advance" movement was directed at

rashness and impetuosity in economic work in the first half of 1956, when responsible officials of the central authorities in charge of economic work stressed the need to oppose both conservatism and rashness. Later the Eighth National Party Congress summed it up as combating both conservatism and rashness, which meant upholding the economic construction principle of advancing steadily while achieving an overall balance.

But after the scope of the 1957 struggle against the Rightists was enlarged, this correct principle was criticized and repudiated. At the Third Plenary Session of the Eighth Party Central Committee, the "anti-adventurist advance" movement was criticized and repudiated for violating the general line in building socialism.

In early 1958, at several meetings called by the Party Central Committee and at the Second Session of the Eighth National Congress of the Party in May, the movement against adventurist advance was again subjected to successive criticisms. Such wrong criticisms inevitably led to the malignant growth of "Left" ideas characterized by rashness and impetuosity in economic work.

The main theory on which these "Left" ideas were based was undue stress on man's subjective initiative. It held that the nation's 600 million people were the decisive factor, that poverty gave rise to the desire for a change and that miracles could be created.

The report to the Second Session of the Eighth National Party Congress said: "China has upwards of 600 million people who have forged flesh-and-blood ties with our Party. By relying on this great force, we can do whatever mankind can do, and we can do it very quickly. There is nothing that is beyond us."

In his *New Theory on Population* published in July 1957, the famous economist Ma Yinchu held that though a large population constituted a great and rich resource, it also was a very heavy burden. If population were allowed to grow unchecked, it was bound to seriously affect the development of the economy and the improvement of the people's living standards. He proposed several measures to remedy the situation, including family planning, and advocated raising the quality of our population while keeping its growth under control. This was a correct proposal of far-

reaching significance. But it was wrongly criticized as a new Malthusian theory on population. Noted scholars who supported Ma Yinchu's views were wrongly labelled as Rightists.

The general line for building socialism adopted at the Second Session of the Eighth National Party Congress in 1958 was worked out precisely under the conditions when the scope of struggle against the Rightists was enlarged, the "anti-adventurist advance" movement was subjected to repeated criticism and "Left" ideas characterized by impatience for success grew to an appalling proportion. The guiding ideology behind all this lacked the scientific spirit of seeking truth from facts.

The serious defects of the general line itself gave rise to impetuosity and rashness in economic work. The 40 articles in the National Programme for Agricultural Development put forward in 1956 and the goal set in 1957 to catch up with and surpass Britain in the output of iron and steel and other major industrial products in 15 years or a little longer were obviously too ambitious and could be achieved only through hard work. After the Second Session of the Eighth National Party Congress, high speed in economic construction was stressed to an even more unwarranted degree.

For example, on June 21, 1958 *Renmin Ribao* published an editorial entitled "Strive for High Speed" which said, "Developing China's social productive forces at top speed so as to realize the country's industrialization and agricultural modernization is the basic spirit of the general line. Like a red thread, it runs through every aspect of the general line. Without high speed, to achieve greater, faster, better and more economical results in building socialism would be out of the question, and there would be no need to go all out and no need to aim high. Therefore it can be said that speed is the soul of the general line." The editorial went on to say, "Speed is a question concerning the line for construction and a basic principle for China's socialist cause." Thus, high speed became the central link in the endeavour to achieve greater, faster, better and more economical results. He who worked at a high speed was implementing the general line, and he who worked in the light of actual conditions was said to be doubting and opposing the general line. All this justified the general line's defects of neglecting the objective laws and gave rise to the so-called "Great Leap Forward" and the movement to set up people's communes.

XV The "Great Leap Forward"

Section I Preparations in the Early Stage and the Beidaihe Conference

The "Great Leap Forward" and the movement to form rural people's communes were recklessly launched in 1958, bringing serious setbacks to the nation's socialist construction. This was due to the lack of experience in socialist construction and the lack of a real understanding of the law of economic development and the actual economic situation in China. It was, in particular, because of the fact that Mao Zedong and many leading members of the central and local authorities, who were flushed with success which engendered self-complacency and were too anxious to get things done, did not make conscientious investigations and study or carry out experiments in selected places before launching the movements.

The period from the Third Plenary Session of the Eighth Party Central Committee in September 1957 to the Second Session of the Eighth National Congress of the Chinese Communist Party in May 1958 was the period of preparations for the "Great Leap Forward." Except for the winter-spring span when 60-70 million people were organized to build water conservancy works for the farmland, the greater part of this period was devoted to ideological preparations within the Party with the emphasis on criticizing the "anti-adventurist advance" movement.

On November 13, 1957 *Renmin Ribao* published an editorial which said, "Some people who are influenced by Right conservative ideas are moving forward at a snail's pace. They do not understand that, after the movement for agricultural co-operation, there are the conditions and necessity for a great leap forward on the production front." This was the earliest instance of the slogan "great leap forward" appearing in the Chinese newspapers.

On February 2, 1958 *Renmin Ribao* published another editorial which declared, "Our country is confronted with the new situation of a nationwide

great leap forward — a great leap forward in industrial construction and industrial production, a great leap forward in agricultural production, and a great leap forward also in educational, cultural and public health undertakings."

The Second Session of the Eighth National Party Congress proclaimed that China was in a great epoch in which "one day equalled 20 years." The congress issued the call to "break down fetishes and superstitions and emancipate the mind" and to strive to surpass Britain and catch up with the United States at a still earlier date. Articles published in *Hongqi* (Red Flag) and other periodicals and newspapers predicted that it was possible for China to take less time than previously expected to catch up with the big capitalist countries in industrial and agricultural production. Thus the "Great Leap Forward" movement spread rapidly to all fields of work in the country, and such erroneous tendencies as fixing high targets, giving directions in a blind way, boasting and exaggerating, and trying to effect the transition to communism prematurely became prevalent and grew in intensity.

At the beginning, all the provinces, municipalities and autonomous regions were required to boost local industries so that their output value would exceed local agricultural output value in five to ten years, fulfil the targets set in the National Programme for Agricultural Development in five to eight years, and basically change the look of the greater part of the country after three years of hard work. Before long, however, the deadline for local industrial output value to surpass the agricultural output value was shortened to five to seven years, and mechanization or semi-mechanization in farming throughout the country was required to be completed basically within seven years (or in five years, if possible). This put great pressure on the various localities in drawing up their plans for a "great leap forward."

Decentralizing industrial management and developing local industries, which were of key importance to the improvement of economic management and the development of socialist construction, were used at that time as important measures to push ahead with the movement for an all-round "great leap forward."

In the spring of 1958 the government decided to decentralize economic management and delegate more powers to the localities. After the Second Session of the Eighth National Party Congress, the country was divided in

early June into seven co-operative areas, namely, the Northeast, North, East, South, Central, Southwest and Northwest China co-operative areas, each of which was required to build its own big industrial enterprises and economic bases as quickly as possible so as to form several economic zones with a comparatively complete industrial setup.

Later, in addition to these co-operative areas, those provinces where conditions permitted were required to build their own independent but different industrial systems. Thus the various localities had to shoulder new tasks and duties in developing their industries.

To attain this goal, the central authorities issued a directive in early June to the effect that the great majority of the enterprises and undertakings under the various ministries at the central level should be transferred to the management of the local authorities within a fortnight or so. By mid-June over 880 units under the central industrial departments were taken over by the local authorities and about 80 percent of the enterprises and undertakings under various ministries were transferred to the management of the local authorities. Meanwhile, a mass campaign to build industries swept the country.

In Gansu Province where industry was underdeveloped, some 1,000 factories were built in the various prefectures and counties from January to March. In the March-May period, another 3,500 factories were set up not only by the prefectures and counties but also by the townships and people's communes; and in May and June, 220,000 more factories were built by the counties, townships, people's communes and production brigades as well as by the government organizations, schools and various trades. Thus there emerged an upsurge in the building of local industries.

As a step to promoting the building of local industries, the various provinces, municipalities and autonomous regions were given permission to issue construction bonds, and towards the end of June they were empowered to recruit labour force and make such deployments as they saw fit. Moreover, their plans for employing workers in 1958 could be carried out once they were approved by the local authorities, and no approval from the central authorities was needed. In capital construction, according to the stipulations laid down in September 1958, most of the big and medium-sized projects could be built after they were examined and approved by the local authorities or ministries concerned and reports on these projects were sent to

the State Planning Commission and the State Capital Construction Commission.

Under the influence of "Leftist" ideas at that time, the targets were fixed higher and higher. After the various co-operative areas held separate discussions in June, there were proposals to increase the 1958 steel output by 100 percent. And there were reports from the Northwest China co-operative area, a traditionally low-yielding area in China, that average per-capita grain output would reach 550 kilogrammes in 1958, 1,000 kilogrammes in 1959 and over 1,500 kilogrammes in 1962.

Such unwarranted high targets inevitably led to exaggerations and blind guidance. The authorities in Chang'ge County in Henan Province asserted that deep ploughing was the key technical measure to increasing farm output; they therefore demanded that all the land that could be deep-ploughed be ploughed 0.33 metre deep in two to three years' time, and that this should be repeated every three years. In some provinces and autonomous regions, the authorities demanded that the number of late rice seedlings for each *mu* (one *mu* equals 1/15 hectare) be increased to 40,000 and 50,000. Issuing directions in such a blind way resulted in a great waste in manpower and seeds and a reduction in output. At that time, however, false reports of grain output were published in the newspapers, saying that per-*mu* output of wheat had reached 3,660 kilogrammes, per-*mu* output of early rice had topped 18,450 kilogrammes and per-*mu* output of semi-late rice had increased to 65,000 kilogrammes. The slogans prevalent at that time were: "The bolder the people are, the more the land will produce" and "we can produce as much grain as we need."

The tendency of being over-anxious in effecting a quick transition in the system of ownership was also prevalent at that time. In the latter half of 1956, the state adopted a more flexible policy on the management of some commodities. This enlivened the economy and a number of small privately owned industrial enterprises, individual handicraftsmen and small traders and pedlars emerged in the cities and towns to meet the needs of the economy. But after the movement against the Rightists, their spontaneous tendencies towards capitalism were somewhat exaggerated. In April 1958 the call was issued to put them under strict control, to set up their transformation and to organize them into various kinds of co-operative organizations, and their earnings should not exceed the wages of the

workers in the local handicraft co-operatives or in the state commercial establishments. As a result the research on the role of market regulation under a unified state plan was cut short.

With regard to the agricultural producers' co-operatives, it was decided in the spring of 1958 to merge the small co-operatives into big ones, and the work was being carried out throughout the country at that time. From spring that year to the wheat harvesting season, over 54,000 agricultural co-operatives in Henan Province were merged into 30,000 big ones, and a number of large co-operatives embracing several thousand households each were set up on an experimental basis. In Liaoning Province, 9,600 co-operatives were merged into 1,461 big ones in May that year, each embracing 2,000 households on the average. Nine of them had more than 10,000 households, and the largest one had 18,000 households. Thus one township had by and large only one agricultural producers' co-operative.

While the small co-operatives were being merged into large ones, many industrial enterprises, public canteens, creches, kindergartens and Houses of Happiness for the Old were set up. The co-op members' plots of land for private use were taken away by the co-operatives and large-scale co-operation in production was carried out. An article published in the July 1, 1958 issue of *Hongqi* (Red Flag), organ of the Chinese Communist Party, took the lead in advocating: "Turning co-operatives into grass-roots units with co-operation in both agriculture and industry actually means setting up people's communes which combine agriculture with industry."

Before long, a people's commune was set up in Qiliying in Xinxiang County, Henan Province. During an inspection tour in early August that year, Mao Zedong pointed out: "It is good to set up people's communes. Their advantage is that they combine industry, agriculture, commerce, education and military affairs, thus making the task of leadership easier." He held at that time that people's communes were "bigger in size and of a more developed socialist nature," and were therefore helpful to speeding up agricultural development; moreover, they created the conditions for the transition to communism in the rural areas.

A high tide to merge co-operatives into communes appeared in many places after the publication of Mao Zedong's speech. At the same time, of the nation's 100,000 handicraft co-operatives or groups, 37.8 percent were turned into state-owned factories and 35.8 percent into people's commune-owned factories.

On August 13-30, 1958, an enlarged conference of the Political Bureau of the Party Central Committee was held in Beidaihe, a summer resort in Hebei Province. The conference discussed the national economic plan for 1959 and questions relating to industrial and agricultural production and the work in the rural areas. Two important documents were published, namely, "The Call on the Whole Party and the Whole People to Strive to Produce 10.7 Million Tons of Steel" and the "Resolution on Establishing People's Communes in the Rural Areas."

According to an estimate at that time, total grain output in 1958 could reach 300-350 million tons as a result of the big leap forward in agricultural production. This would be a 60-90 percent increase over the previous year, and would mean 500 kilogrammes for each person in the country. Cotton output, according to the estimate, would top 3.5 million tons, or more than double the 1957 figure.

On the basis of these wrong estimates, the conference decided to shift the emphasis of work from agricultural production to industrial production. It was held at that time that China would soon overtake Britain in the output of steel and other major industrial products (except electricity and a few industrial products), and that grain and cotton output would fulfil the targets set in the National Programme for Agricultural Development (1956-67) eight years ahead of schedule. By 1962 when the Second Five-Year Plan would be fulfilled, China would be built earlier than expected into a socialist country with a modern industry, agriculture, science and culture. By that time, conditions would be created for the transition to communism.

The conference also decided that steel output in 1958 should be increased to 10.7 million tons, or double the 1957 figure, and to 27-30 million tons in 1959, and grain output should be increased to 400-500 million tons in 1959. In education, the conference called for efforts to wipe out illiteracy and make primary school education universal in three to five years. It also issued the call that each agricultural producers' co-operative should have a middle school and that most of the pre-school-age children should be able to enter nurseries and kindergartens. The conference also proposed that college education be popularized in 15 years among the adults and young people who had the necessary conditions.

The conference also decided that people's communes should be set up extensively in the rural areas. It proposed that they should be established

according to the principles of integrating government administration with commune management and combining industry, agriculture, trade, education and military affairs. As to the scale of the people's communes, it proposed that "for one township to have one commune embracing about 2,000 households" was quite suitable. This actually meant that the scale of the original agricultural producers' co-operatives of an advanced type was expanded by 20 to 30 times. Moreover, in the course of amalgamation, it was emphasized that drawing up a rough account of the original property and debts of the co-operatives would be sufficient and that the plots of land for private use, the privately owned fruit trees and funds formerly pooled as shares would gradually and "naturally become public property."

All these measures went far beyond the actual level of the productive forces at the time and the actual level of consciousness of the masses as well. Although it was announced that the "task at present is to build socialism" and that "there should be no hurry to change collective ownership into ownership by the whole people after the people's communes are established," it was also held that the transition from collective ownership to ownership by the whole people "will be accomplished quickly in three to four years in some places, and in five to six years or a little longer in some other places." So the request was made to actively prepare for the transition to communism. It was even openly announced that "the realization of communism in China is no longer a thing of the distant future."

More serious was the fact that the method of "fully mobilizing the masses and letting them air the views and hold debates" was adopted to forcibly press ahead with the so-called "Great Leap Forward" and the movement to form people's communes. This violated the principle of correctly handling the contradictions among the people and ran counter to the experience gained in the early stage of the movement for agricultural co-operation when voluntary participation was stressed and experiments were first carried out in selected places before spreading the movement step by step. Thus the way was paved for resorting to coercion and commandism and suppressing different views.

The Beidaihe conference was an important turning point in the development of China's economy. The resolution adopted at the conference quickly brought about the so-called "Great Leap Forward" with steel production as the key link and the movement to set up people's communes

all over the country. In this way the "Left" deviationist errors, characterized by fixing high targets, giving directions in a blind way, boasting and exaggerating, and trying to effect the transition to communism prematurely, spread unchecked all over the country.

Section II The "Great Leap Forward" Centring Round the Mass Campaign to Boost Iron and Steel Production

After the Beidaihe conference, high targets were set for industry, agriculture, transportation and commerce as well as cultural, educational and public health undertakings. All the sectors were required to achieve a "great leap forward," and the iron and steel industry was to take the lead by doubling its output.

But it was well beyond all possibilities to turn out 10.7 million tons of steel in 1958, which was double the 1957 figure.

First of all, time was too short. January through August saw only 4.3 million tons of steel produced, which was a little more than one-third of the year's planned total. So the other 6 million tons had to be produced in the remaining four months.

Moreover, the iron and steel industry was not capable of doing what was required of it at that time.

Take iron-smelting for example. At the end of 1957, the annual production capacity of pig iron was 6.96 million tons. In the first eight months of 1958, only 5.3 million tons of pig iron were produced. That meant 11.5 million tons more had to be turned out in the four months from September to December in order to fulfil the year's "leap forward" plan. In an attempt to achieve this, numerous medium-sized and small blast furnaces were built across the country in addition to the construction of several large blast furnaces. Even so, the production capacity still fell far short of the requirement.

Take steel production for another example. The 1957 year-end production capacity was 6.48 million tons. Plans were drawn up to build converters and electric furnaces to help fulfil the quota of 10.7 million tons. But even if the plans had been realized, they could not, with the help of other construction projects, fulfil the planned quota in the remaining four months.

As for mining and steel rolling, the gap was even wider between their production capacity and the tasks set by the state.

At that time transport by railway, highway, waterway and by air was unprecedentedly strained. By the end of August, a total of 6.5 million tons of materials had been piled up, waiting to be transported, and there was serious traffic congestion in many railway stations and along several special lines.

As regards coal production, the 1958 plan was to produce 220.8 million tons. However, only 120.97 million tons were produced from January to August, which was only 55 percent of the year's planned total.

Electricity had always been in short supply, especially in northeast and southwest China and in Shandong Province. The shortage of electricity was the Achilles' heel in the "great leap forward" in industrial production.

The following major steps were taken in a futile attempt to realize the high targets.

(I) Devoting all efforts to ensure steel production regardless of other sectors. All departments and localities were required to give priority to steel production. When the iron and steel industry began vying with other industries for equipment, materials, energy, manpower and transport, the latter must give way to the former.

(II) Launching a mass movement for steel production, beginning with indigenous methods of smelting iron. After the Beidaihe conference, the call was issued to the whole Party and the people of the whole country to go all out and work hard in the following four months. The workers, farmers, cadres, students and city dwellers all over the country quickly responded to the call and launched a mass campaign to boost iron and steel output. The campaign was unprecedented in scale, in the number of participants and in the speed of development.

A special feature of this campaign was the mushrooming of small blast furnaces using indigenous methods. In the last three months of 1958, quality iron from the modern blast furnaces made up only a quarter of what was needed to double the amount of steel output. The remaining portion, therefore, had to come from blast furnaces using indigenous methods.

In the first eight months of 1958, more than 240,000 small and indigenous blast furnaces were built throughout the country, with several million people taking part in smelting iron. By September upwards of 50 million people had been mobilized to work in the mines and by furnaces, and

the number of small and indigenous blast furnaces had reached 600,000. More and more people were drawn into this movement after October, and the fields and streets all became the scene of steel and iron production.

Meanwhile, mass movements were also unfolded in geological prospecting, coal production, electricity supply, and in the machine-building industry and in communications and transportation. In fact, mass movements were launched whenever and wherever there was the need to do so. In geological prospecting, for example, secretaries of Party committees in many parts of the country organized the masses to look for ores in the hills and dales. Students from primary and secondary schools, commanders and soldiers of the People's Liberation Army, and even seventy- and eighty-year-olds plunged into these movements. In some provinces millions of people went to the mountains in search of minerals.

Another example was the mass movement in coal mining. Starting from September 1958, about 20 million people carried hoes and shovels together with cooking utensils and went to the mountains to find coal. By the end of the year there emerged over 100,000 small coal pits throughout the country.

In communications and transport, tens of millions of peasants and people of both sexes and all ages from various walks of life joined the workers of transport and communication departments to give a boost to transportation. Both modern and backward means of transport were used, including trains, motor vehicles, steamers and aeroplanes as well as junks, horse-drawn carts and wheelbarrows.

In the large and modern enterprises, the workers and staff members were called upon to "do away with fetishes and superstitions and emancipate their mind," throwing to the winds the necessity of respecting scientific laws and observing rules and regulations. The result was that most enterprises lopsidedly stressed quantity, haphazardly rigged up their equipment and intensified the exploitation of resources. The neglect of quality and safety in production and complete disregard for economic returns landed the enterprises in a mess.

(III) The scale of capital construction was rapidly expanded, leading to an over-extended front. In 1958 the total amount of investment in capital construction originally approved was 14.5 billion yuan. However, the amount had been increased time and again and by August that year when the Beidaihe conference was held, it had reached 22.1 billion yuan.

In addition, some local governments and enterprises raised funds for themselves by issuing bonds, illegally using the circulating funds, overcharging for costs of production, and other means. According to an investigation conducted in August by departments concerned, the funds so raised in 11 provinces, municipalities and autonomous regions amounted to 2.35 billion yuan. In 1958 the country invested a total of 26.7 billion yuan in capital construction, up 97 percent from 1957 or equivalent to half of the total amount of 55 billion yuan invested during the First Five-Year Plan period (1953-57). Of this amount, 21.4 billion yuan came from the state, 70 percent more than that of 1957.

The deficiency of materials, which were used in a scattered way, delayed many construction projects which should have been completed and put into operation. Of the 1,587 large and medium-sized projects undertaken in 1958, only 170 were completed and put into operation. This accounted for only 10.7 percent of the total number of these projects, and the rate of utility of the fixed assets was only 74.8 percent.

(IV) Commerce and banks had to support unconditionally the "great leap forward," and they often resorted to makeshift measures which threatened the normal circulation of funds. At that time the practice followed by the commercial departments was that they would purchase no matter what and how much industry produced. The result was that large quantities of shoddy and practically useless products made their way into the state's warehouses. When the commercial and industrial enterprises lacked funds, the banks would grant loans as an expression of support. In this way, large amounts of the capital and savings deposits of the banks were turned into the circulating funds of the enterprises, and sometimes they were even used by the enterprises as capital construction funds. Worse still, materials which were sluggish in sales were stockpiled in the warehouses.

The nationwide all-out efforts did push up iron and steel output. On December 19, it was announced that the task of doubling iron and steel output was fulfilled 12 days ahead of schedule. By the year-end, it was reported that steel output was 11.08 million tons and the output of pig iron was 13.69 million tons. But taking the situation as a whole, the fixing of high targets, the issuing of directions in a blind way and exaggerations brought serious consequences to the national economy.

In the mass campaign to boost iron and steel production, large amounts

of materials, labour force and money were wasted. Instances of machines damaged as a result of over-capacity operation were numerous. The quality of products dropped and their variety decreased. Take the production of iron and steel for instance. Only 8 million tons of steel produced in 1958 were up to standard. Of the 13.69 million tons of iron, 4.16 million tons, or 30.4 percent of the total, were produced by indigenous method and were below the required standard. To feed the blast furnaces operated by indigenous methods, an excess of iron ore was tapped and trees were felled over an extensive area, thus damaging the mineral and forestry resources. Most of the iron and steel so produced were high in sulphur content and therefore unfit for processing.

Owing to the continual expansion of the scale of capital construction, the accumulation rate suddenly rose from 24.9 percent to 33.9 percent in 1958. Large and medium-sized projects under construction increased from the originally planned 1,135 to 1,587, which was 593 more than in 1957. The number of workers and staff members increased in accordance with the expansion of capital construction. In 1958 alone there were 20 million more people employed, bringing the total to 45.32 million. This increase was more than the national economy, agriculture in particular, could bear.

The situation in agriculture was encouraging and a rich harvest was expected in 1958. But the mass movements to boost steel output and set up industrial and other undertakings recruited too much labour force from the countryside. A total of 38.18 million peasants, mostly able-bodied, left the fields, and they took with them farm tools and draught animals to support the "great leap forward." Owing to the shoddy work done in harvesting the autumn crops, what should have been a rich harvest in 1958 was not gathered in and large amounts of grain and cotton were left in the fields because of the lack of hands. After checking, the actual increase in output was far below what had been anticipated. Live pigs, draught animals and aquatic products all decreased as compared with 1957. With the big increase in the population in the cities and towns, market supplies began to fall short of demand.

The disproportionate development between industry and transport became worse than ever. After herculean efforts, the volume of freight transport increased by 40 percent in 1958 whereas the output of coal increased by 107.7 percent and that of pig iron rose by 130.5 percent in the

corresponding period. As a result, large quantities of coal and iron ore could not be shipped to the production units at the end of the year.

The contradictions between the various departments of industry and between light and heavy industries had increased in proportion. Many factories producing light industrial goods and handicraft producers' co-operatives were unable to maintain normal production for lack of raw materials and fuels. A great many handicraft producers' co-operatives were turned into state-run factories that year, and only 13.3 percent of them were left untouched. This gave rise to a serious shortage of light industrial products and handicrafts.

In heavy industry, there also existed the disproportionate development between the raw materials industry and the processing, power and fuel and other industries. During the First Five-Year Plan, for instance, to increase one ton of iron required an increase of capacity to produce four tons of iron ore and one ton of coke. But in 1958, for every ton of iron there was only an increase of 1.5 tons of iron ore and 0.3 ton of coke, which was obviously insufficient.

The piece-work wage system and bonuses were abolished in the "great leap forward" movement. The workers, therefore, earned less, and the peasants fared no better. With the abolition of small plots for private use and sideline occupations, the peasants relied mainly on the meagre distribution from the collective. To fulfil the tasks of the "great leap forward," the people in the urban and rural areas often had to work overtime and move from place to place. This inevitably affected their health and daily life and dampened their enthusiasm for production.

Section III The Movement for Setting Up Rural People's Communes

In less than one month after the Beidaihe conference, rural people's communes were set up on an extensive scale in many provinces and autonomous regions. By the end of September 1958, the movement was brought to completion throughout the country, with the exception of Tibet. Altogether 26,425 people's communes were set up, embracing 121.94 million farmer households, or 98 percent of the total number of farmer

households. The communes had on the average 4,614 households each.

Prior to the setting up of communes, there were about 750,000 agricultural producers' co-operatives. Thus, on the average, 28 agricultural co-operatives were merged into one commune. According to statistics from 10 provinces and municipalities, 3,343 of the 5,538 communes there had 5,000 or fewer households; 1,628 communes had 5,000 to 10,000 households; 516 communes had 10,000 to 20,000 households; and 51 communes had more than 20,000 households. In 13 other provinces, altogether 94 counties had each set up a people's commune.

These communes were "bigger in size and of a more developed socialist nature." They were bigger in scale than the agricultural producers' co-operatives and engaged in a wider scope of production activities. Agricultural producers' co-operatives of an elementary type generally consisted of scores of households while their advanced version comprised one or two hundred households. Both the elementary and advanced co-operatives were mainly engaged in agricultural production. By comparison, the people's communes were engaged in the all-round development of agriculture, forestry, animal husbandry, sideline occupations and fishery, and they were the basic social units combining industry, agriculture, commerce, education and military affairs. This inevitably led to the amalgamation of rich and poor production brigades and teams into one commune practising unified accounting, which actually meant the enforcement of absolute egalitarianism.

The communes were said to be "of a more developed socialist nature" because, firstly, they had merged with the basic organization of political power in the countryside and the state had put the banks, commercial establishments and other enterprises in the rural areas, which were owned by the whole people, under the management of the communes. Thus the communes had some elements of ownership by the whole people in addition to its original collective ownership. Secondly, the communes had taken over the peasants' private plots, poultry and domestic animals as well as household sideline occupations, thereby eliminating the remnants of the so-called private ownership of the means of production. Thirdly, the communes were organized along military lines and their members lived the collective way and worked like soldiers fighting a battle. Public canteens, kindergartens, nurseries and homes for the old people were set up all over

the countryside. A distribution system combining wages and supply of grain was put into practice.

The people's communes spared no effort to follow the practice of providing food free of charge and tried to implement the supply system of being responsible for the livelihood of the majority if not all of its members, totally disregarding the conditions at that time. By the end of 1958, there were 3.4 million public canteens in the countryside, as many nurseries and 150,000 Houses of Happiness for the Old. This brash attempt at negating the principle "to each according to his work" and carrying out instead the principle of distribution "to each according to his need" was beyond the country's economic capability. Moreover, it made no difference between good and bad work and was therefore not conducive to stimulating the people's initiative.

During that period, practically everything was done through the people's communes by mobilizing the manpower, material and financial resources in the rural areas on a large scale, sometimes even gratuitously.

In the second half of 1958, incomplete figures from 17 provinces showed that there were 600,000 blast furnaces using indigenous methods, turning out 2.4 million tons of iron and 500,000 tons of steel of poor quality. Tens of millions of farmers were mobilized to build 59,000 small coal pits, 4,000 small power stations, 9,000 cement works and 80,000 factories for repairing and manufacturing farm tools. In addition, large numbers of makeshift factories producing chemical fertilizers, processing grain, pressing oil, refining sugar and sewing clothing were also built.

During this period, various localities in the country mobilized 20 percent of their horse-drawn vehicles and pushcarts and 30 percent of their junks to help transport goods. The volume of goods transported in this way made up one-fifth of the nation's total. In 1958 the country built 150,000 kilometres of roads, of which two-thirds were built by the commune members. About 1.5 million commune members living along the railway lines from Beijing to Guangzhou and from Tianjin to Pukou took part in double-tracking the lines and they completed about 2,700 kilometres.

More than 100 million people in the various places were mobilized to build water conservancy projects. In a little more than six months, 58 billion cubic metres of earth and stonework were completed and the irrigated area increased by 26.66 million hectares. But the acreage that really benefited

from these efforts was far below this figure because of poor planning and shoddy work.

Overestimation of the per-hectare yield of crops at that time inevitably led to an increase in the amount of grain to be delivered to the state. In 1958 the delivery of grain (agricultural tax in kind) by the farmers and the state's purchases of surplus grain increased by 22.3 percent over the year before while actual grain output increased by only 2.5 percent. The amount of grain delivered by the farmers and purchased by the state rose from 24.6 percent of the actual output in 1957 to 29.4 percent in 1958. At the same time, the practice of providing food free of charge by the public canteens had almost depleted the villages of grain. To increase the amount of grain to be delivered to the state in these circumstances, coupled with the state banks forcing the farmers to pay back the loans extended to them, no matter whether these loans were due or not, greatly affected the livelihood of the farmers.

Beginning in the winter of 1958, the state could not purchase enough agricultural products, and the supply of grain, oil-bearing crops, pork and vegetables on the market fell far short of demand. The shortage was even more serious than in 1953 and 1956.

XVI Correcting the Mistakes Discovered

Section I Reducing the Scale of the Movement and Overhauling the People's Communes

Mao Zedong called a conference, participated by some leaders of the central and local authorities, in Zhengzhou, Henan Province, on November 2-10, 1958. (This was later known as the first Zhengzhou conference.)

Prior to the conference, Mao Zedong had made an inspection tour of a number of villages in Hebei and Henan Provinces and discovered that there was confusion in thinking and in practice on the question of the people's

communes. Some people, for example, thought that since the people's communes were under the ownership of the whole people, they could deploy their labour forces and requisition their products without paying any compensation. Some who failed to distinguish between socialism and communism set the goal of realizing communism in one or two years. Some advocated the abolition of commodity production and even mistakenly regarded communism as the elimination of the family and the abolition of private ownership of the means of livelihood.

At the first Zhengzhou conference, Mao Zedong took to task the prevailing tendency of failing to distinguish between socialism and communism and between collective ownership and ownership by the whole people. He pointed out in unequivocal terms that China was still in the socialist stage and that the people's communes were basically still under the collective ownership.

He criticized the erroneous ideas of Chen Boda, then editor-in-chief of *Hongqi*, to abolish commodity production and appropriate products without giving any compensation. Mao Zedong pointed out that to abolish commodities during the socialist period was in violation of the economic laws. Commodity production, he noted, was still not developed in China, and therefore it should be considerably boosted instead of being eliminated. He stressed in particular that the exchange of commodities should be developed in order to unite with the peasants who numbered several hundred million. To abolish commerce and appropriate and distribute farm products by arbitrary means was, in essence, to expropriate the farmers.

The first Zhengzhou conference, however, failed to repudiate the unrealistic assessment of China's economic development at that time and continued to set high production targets. It also failed to have a profound understanding of the mistakes committed in the movement to set up people's communes. Nevertheless, the conference took the first major step towards correcting the mistakes already discovered.

Shortly afterwards, the Party Central Committee convened an enlarged meeting of the Political Bureau in Wuchang and decided to overhaul the people's communes from December 1958 through 1959.

Following this, the Sixth Plenary Session of the Eighth Central Committee of the Chinese Communist Party was held in Wuchang. The session adopted the Resolution on Certain Questions Concerning the

People's Communes, which pointed out, "The switch from agricultural producers' co-operatives to people's communes, the transition from socialist collective ownership to socialist ownership by the whole people and the transition from socialism to communism are processes which are interconnected but at the same time distinct from each other."

"First of all," it added, "the switch from the agricultural producers' co-operatives to the people's communes has expanded and strengthened the existing collective ownership and contains certain elements of ownership by the whole people. But this is not to say that collective ownership in the countryside has been transformed into ownership by the whole people. The whole Chinese countryside has now switched over to people's communes, but a certain period of time will have to pass before ownership by the whole people is realized throughout the countryside."

"Furthermore, the change from socialist collective ownership to socialist ownership by the whole people is not the same thing as the going-over from socialism to communism. Still less is the change from agricultural producers' co-operatives to people's communes the same thing as the change from socialism to communism."

In no uncertain terms the resolution pointed out that both the transition from socialist collective ownership to socialist ownership by the whole people and the transition from socialism to communism "must depend on a certain level of development of the productive forces." "The present level of development of the productive forces in our country is, after all, still very low. Three years of hard battle plus several years of energetic work may bring about a great change in the economic face of the country. But even then there will still be a considerable distance to go to reach the goals of a high degree of industrialization of the entire country and the mechanization and electrification of our country's agriculture; and there will be an even longer distance to go to reach the goals of an enormous abundance of social products, of a great lightening of labour and of a sharp reduction of working hours. Without all these, it is, of course, impossible to talk about entering a higher stage of development in human society communism."

The resolution emphasized that for a period to come, the people's communes must continue to follow the system of distribution according to

one's work and that they should achieve considerable growth in commodity production and exchanges.

The resolution stipulated, "The means of livelihood owned by members (including houses, clothing, bedding and furniture) and their deposits in banks and credit co-operatives will remain their own property after they join the communes and will always belong to them." It said, "The Communist Party committees of the provinces, municipalities and autonomous regions should, in accordance with the requirements set forth in this resolution and in close integration with the production tasks of the winter and spring seasons, make full use of the five months from December 1958 to April 1959 to carry out, within the people's communes in their areas, educational work, check-up and consolidation."

After the Sixth Plenary Session of the Eighth Party Central Committee, the various localities started to consolidate the people's communes in accordance with the resolution adopted at the session. During the process, however, an uncalled-for struggle was launched, to the great disgruntlement of the farmers, against the so-called departmental egoism and the practice of understating grain output in order to share the amount thus obtained among the farmers themselves. Mao Zedong, after careful investigation and study, found that consolidation work should start with readjusting the system of ownership within the people's communes.

From February 27 to March 5, 1959, the Party Central Committee held an enlarged session of the Political Bureau (known as the second Zhengzhou conference) to tackle the question of the people's communes' system of ownership and the question of appropriating the farmers' belongings without compensation.

At this conference, the "Leftist" mistakes made during the movement to set up people's communes were carefully examined. Addressing the session, Mao Zedong pointed out that one drawback of the resolution adopted at the Sixth Plenary Session of the Eighth Party Central Committee was that it had no clear-cut stipulations that the system of collective ownership in the people's communes also needed a process of development. The first thing to do, he held, was to check and correct the tendencies towards egalitarianism and over-centralization. The egalitarian deviation denied that there should be any difference in income between the various

production teams and individuals; in other words, it negated the socialist principles of "to each according to his work" and "more pay for more work." The deviation of over-centralization meant denying ownership by the production teams and arbitrary requisition of the belongings of the production teams by the communes. Both deviations negated the law of value and the exchange of equal values.

Acting on Mao Zedong's proposal, the session drafted the Certain Regulations Concerning the Management System of the People's Communes. The document called for decentralizing the power of the people's communes and instituting the system of ownership at three levels (namely, the people's commune, the production brigade and the production team) and the system of three-level accounting, with the production team (its scale being equivalent to that of the former agricultural producers' co-operative of an advanced type) as the basic unit. In the people's communes, the principles of exchange of equal values and "to each according to his work" were to be implemented. The communes were required to pay attention to rational accumulation and equitable distribution under a unified plan. The document also stressed that everyone should recognize that there should be a reasonable difference in income between the production teams and between the commune members.

The work to consolidate the people's communes went a step further after the second Zhengzhou conference. In April 1959, the Party Central Committee convened a conference of the Political Bureau in Shanghai to examine the work done in this regard. Stipulations on 18 questions concerning the people's communes were decided upon in principle. Apart from reiterating the principles and policies laid down since the first Zhengzhou conference, they included the following points:

First, it was decided that the production teams should be the basic accounting units, and the production groups under them were units with contracted responsibilities for a certain amount of output. These groups owned part of the means of production and had certain power in management. The production groups' established rights to the use of land, draught animals, farm implements and manpower must not be infringed upon by the communes, production brigades and production teams. The production groups had the power to take their own technical measures for

boosting production in the light of their actual conditions and the general opinions of their members. Apart from handing in a fixed proportion of their income from above-quota output to the production teams, they could keep the remaining portion for their own use.

Second, it was decided that the various kinds of accounts kept by the people's communes since their establishment should be carefully checked. Whatever belongings that were requisitioned from the collectives or individuals without paying any compensation should be returned without exception or fully compensated. Should there be any difficulty, the compensation could be postponed or paid in instalments.

Third, the banks must return all the loans to the people's communes which were forced to repay before they were due. The credits extended to the former advanced agricultural producers' co-operatives or individuals should, in principle, be repaid by the recipients, and the amount already deducted according to a unified plan from the communes should be returned.

Fourth, as to the amount of money to be put aside as public accumulation and welfare funds, consideration should be given to the local level of production and standard of living so as to ensure an appropriate increase in the commune members' incomes over the preceding year. Taking the contracted output quota as 100, then the expenses for production should generally not exceed 19-24 percent, management expenditures should be kept below 2 percent, public accumulation and welfare funds should not exceed 8-18 percent and 2 percent respectively, and after deducting public grain and taxes, the remaining portion to be distributed among commune members should be 50-60 percent.

Fifth, no less than 80 percent of the people's communes' manpower should be deployed for agriculture, forestry, animal husbandry, sideline occupations and fishery, and no more than 20 percent of the manpower should engage in industrial production, transport and communications, capital construction, cultural and educational undertakings, public health and service trades. Cities and industrial and mining areas should stop recruiting workers from the countryside, and temporary workers who could be spared should return to the rural areas.

Sixth, in order to earnestly implement the principle of distributing according to the work done, the wage system should integrate the evaluation

of work and allotment of work-points with appraisal of work to determine the wage grades, the aim being to bring into full play the commune members' enthusiasm for production. There should be a limit to the supply system so as to discourage the lazy and indolent among the villagers. Disabled elderly people and children should be provided for according to the supply system.

A number of other measures were later adopted to correct the wrong tendencies in rural work.

These included the adoption of the principle of combining collective and individual raising of pigs and poultry and the restoration of the system of small plots for the private use of the commune members who should be given no more and no less than 5 percent of the average per-capita acreage of land as was stipulated in the constitution of the advanced type of agricultural co-operatives. The commune members were encouraged to grow crops and plant trees on the tiny bits of land around their houses; whatever was harvested from these plots belonged to the owners who need not deliver the grain thus reaped to the state or fulfil state purchase quotas.

During this period, the Party Central Committee issued a directive on the distribution of the summer harvests of the people's communes, which stipulated that approximately 60 percent of the income should be distributed among the commune members and that there should be an increase in income for over 90 percent of the members. In the case of communes and production brigades whose income was too low, social insurance should be provided for families lacking manpower or having difficulty in making a living. A fixed amount of relief grain should be given to really hard-up families.

To help diversify the economy of the people's communes and facilitate the exchange and supply of commodities among the commune members, the Party Central Committee and the State Council issued the Directive on Organizing Rural Fairs in September 1959. The document stipulated that the people's communes and production brigades could sell at the rural fairs products which should be purchased and supplied by the state according to plan and materials which should be purchased by the state in a unified way or delivered to the state according to fixed quotas so long as they had fulfilled the tasks assigned to them by the state. Household and individual sideline products could also be sold at the rural fairs.

Section II Readjusting Economic Quotas and Related Measures

While correcting the "Leftist" mistakes in the movement to set up people's communes, the Party Central Committee and Mao Zedong became aware of the problems that had come to light in the "great leap forward" movement.

The Party Central Committee convened an enlarged conference of the Political Bureau in Wuchang on November 21-27, 1958. The major topic of discussion was the quotas for industrial production and construction. The targets previously set for the 1959 plan for the development of the national economy were very high. At this conference, Mao Zedong suggested that these targets which were unrealistically high should be lowered.

The Sixth Plenary Session of the Eighth Party Central Committee, convened on November 28 in the same year, readjusted the major targets for the 1959 plan. For example, the target for steel output was lowered from 27-30 million tons to 18-20 million tons; pig iron from 40 million tons to 29 million tons; machine tools from 300,000 to 130,000 pieces; total investment in capital construction from 50 billion yuan to 36 billion yuan; but the target for coal output was raised from 370 million tons to 380 million tons.

The plenary session noted that there had been a certain degree of disproportionate development in the national economy in 1958. For example, the production of coal, iron, steel and rolled steel could not keep pace with each other; the manufacture and supply of many kinds of equipment were not well co-ordinated to enable them to form complete sets; the power industry and transport and communications fell short of the needs; and the over-concentration of manpower and materials in iron and steel production adversely affected agriculture and commerce.

In January 1959, the Party Central Committee called a meeting of secretaries of Party committees of the various provinces, municipalities and autonomous regions to further discuss the year's plan for the development of the national economy. The meeting decided that a good job should be done in 1959 in boosting the production of non-staple food and light industrial products and that priority should be given to the development of the raw and semi-finished materials industry. In particular, the mining industries, including coal, iron ore and nonferrous metals, should be

developed so that an appropriate balance would be achieved between the raw and semi-finished materials industry and the processing industry.

At the Seventh Plenary Session of the Eighth Party Central Committee convened in April of the same year, Mao Zedong criticized the nation's economic work and pointed out that in drawing up plans, certain leeway should be made.

Acting on Mao Zedong's proposal, the plenary session once again readjusted the major targets in the 1959 plan for economic development. The target for steel output dropped from 20 million tons to 18 million tons (of which the amount of quality steel was 10.5 million tons) and the target for coal output was 380 million tons. Changes were also made with regard to the targets for a number of other major industrial products.

But the high targets of 525 million tons for grain and 5 million tons for cotton remained unchanged, while the targets for other farm products were reduced slightly. Total investment in capital construction was cut from 36 billion yuan to 26-28 billion yuan, and the number of big and medium-sized projects was reduced from 1,500 to 1,000.

The draft plan for 1959 adopted at the session was examined and approved in April at the Second Session of the Second National People's Congress. Although the major targets in this plan were reduced by a big margin, the plan still called for a rather high rate of growth, higher than that of 1958.

The plan envisaged, for example, a total industrial output value of 165 billion yuan, a 41 percent increase over that of 1958; the planned total agricultural output value was 122 billion yuan, a 39 percent increase, and steel output (not including steel made by indigenous methods) was to be more than twice as much as in 1958, while the output of pig iron and a dozen other products was to increase by more than 50 percent.

The plan also called for doubling or even multiplying the output of mining, coal dressing, coking and steel-making equipment and power generators. Obviously the plan was seriously divorced from the reality.

After the Seventh Plenary Session of the Eighth Party Central Committee, Mao Zedong was still doubtful about the practicality of the arrangements of the 1959 plan, especially the target set for steel output. So he asked Chen Yun to make further studies and take measures to put the plan on a sound basis. Together with members of the Central Financial Group he

led, Chen Yun made careful studies of the production capacity and transportation conditions for iron ore, coke, refractory materials, iron and rolled steel and, upon approval by the central authorities, fixed the 1959 targets for the output of steel at 13 million tons and rolled steel at 9 million tons.

The central authorities simultaneously issued an urgent directive which, besides reiterating the need to slash the targets for steel and rolled steel output, decided to reduce the output of coal from 380 million tons to 340 million tons, copper from 110,000 tons to 90,000 tons, aluminium from 80,000 tons to 70,000 tons, cement from 13 million tons to 11 million tons, and timber from 46 million cubic metres to 38 million cubic metres. That year's total investment in capital construction was also reduced from 26-28 billion yuan to 24 billion yuan, and the number of big and medium-sized projects was slashed from 1,092 to 788.

The 1959 plan for the development of the national economy was thus revised on several occasions since winter 1958. These readjustments notwithstanding, the influence of the desire for quick success was not completely eliminated. This was particularly manifest in the high quotas fixed for grain and cotton output. A number of other quotas also revealed the impatience for quick results. In industry, however, the targets for certain items which had an important bearing on the nation's overall situation, such as the output of steel and other major products and the total investment in capital construction, were reduced again and again and were therefore more realistic than the original targets.

To alleviate the difficulties confronting the national economy, the following five major measures were taken.

First, energetic efforts were made to increase the production of daily necessities and non-staple food. At the height of the "great leap forward" movement, the supply of daily necessities and non-staple food became increasingly strained. The situation worsened at the beginning of 1959.

So a decision was made in February 1959 to allocate part of the raw and semi-finished materials to meet the needs of the production of articles in daily use. Factories which had switched to other lines were required to resume the production of small commodities for daily use. The handicraft producers' co-operatives which had been turned into local state-run factories or co-operative factories were organized to return to their former trade.

They were to operate as independent accounting units and were responsible for their own profits or losses, so that the handicraftsmen's enthusiasm could be aroused for increasing the quantity and variety of articles for daily use.

Help was also given to handicraftsmen in the people's communes who had difficulty in getting the raw materials they needed and in selling their products. This helped increase the output of handicraft products in the rural areas. As for increasing the production of non-staple food, it was a dual endeavour. While the peasants were encouraged to develop non-staple food production in aid of the cities, non-staple food-producing bases were also established in the big and medium-sized cities.

In suburban areas, major efforts were devoted to growing vegetables while producing other non-staple food. In the outlying districts, major efforts were devoted to producing grain, cotton, oil-bearing and other crops while developing livestock breeding and fishery. While the state and collective-run enterprises should boost the output of non-staple food, individual commune members were encouraged to raise poultry and domestic animals and engage in other fields of non-staple food production.

Second, energetic efforts were made to curtail the social purchasing power and control the sales volume of grain and edible oils. There had been a considerable boost to the social organizations' purchasing power resulting from the continual increase in the number of workers and staff since the "great leap forward." This put huge pressure on the market supply.

In 1959, the increase in society's purchasing power outstripped by far the increase in the quantity of commodities that could be supplied. The estimate was that there was a gap of 5 billion yuan between the two. The shortage in the market supply of grain and edible oils became acute everywhere since 1959.

To solve the problem, the following measures were taken:

(1) All government organizations, army units, enterprises and undertakings were required to practise strict economy and cut expenditures in office work and in the purchase of materials and instruments. With the exception of special needs, appropriations for administrative expenditures were to be withheld for three months beginning in June 1959, so that the annual expenses in this regard would not exceed the 1958 figure of 5.6 billion yuan.

(2) In 1959, the number of workers and staff of enterprises at or above

the county level across the nation was to be reduced by 8-10 million from 1958's 45.32 million, and there should be no further pay rises. Even when necessary readjustments had to be made in certain wage grades, strict control must be exercised. The personnel to be reduced in the course of streamlining the organization should mainly be temporary or contract workers from the rural areas, the unneeded apprentices and recently recruited housewives. By August 1959 about 5 million were laid off.

(3) There should be no increases in agricultural loans in the various places. The 1 billion yuan of state subsidies for the people's communes were mainly used for expanding production. The selling of commodities on credit and the extending of loans in advance should be stopped immediately, and the credit sales of urgently needed means of production should obtain the approval of the central authorities.

(4) The people in the cities and villages were encouraged to put their savings in the banks.

(5) The system of rationing grain should continue in the cities and the residents' rations should be reduced by one-tenth. In the rural areas, the farmers should be encouraged to live frugally. The system of fixing quotas for the output of grain and the amount to be purchased and marketed should continue and would remain unchanged for three years.

From June to September the supply of edible oil should be stopped in the rural areas, with the exception of areas producing rape seeds and areas inhabited by family members and relatives of overseas Chinese; sick people and pregnant women could also receive an appropriate amount. The supply of oil for the needs of city dwellers, for exports and for industrial use should be ensured.

Third, the management of the enterprises should be strengthened. Since the "great leap forward," management in the industrial enterprises was in a mess. In some enterprises the directors' power had been greatly weakened and the planning, designing, technical examination, equipment, power supply and other sections and offices had been abolished. Worse still, some rational rules and regulations had also been scrapped. The result was that the quality of many products went down and the rate of accidents and breakdowns kept rising, endangering the lives of the workers and bringing enormous waste.

In view of the situation, the central authorities in June 1959 called upon

the various departments and localities to conscientiously tackle the problems in enterprise management, mobilize the cadres and workers to expose the defects and, in the spirit of seeking the truth from facts, examine, revise and amend the old and new rules and regulations.

Fourth, a checkup of financial credits and loans was made. Since 1958 many localities and departments had to a degree misappropriated the bank loans and the circulating funds of enterprises for capital construction or other financial expenditures. To remedy this situation, the central authorities decided in July 1959 that an inventory of the financial credits and funds be made, requesting at the same time that a demarcation line be drawn between investment in capital construction and circulating funds. All misappropriated funds should be returned to the banks and enterprises.

Fifth, the first step was taken to recover the over-decentralized power in economic management. In January 1959, the central authorities issued notice to the effect that the recruitment of new workers and staff members should be stopped. The various provinces, municipalities and autonomous regions must submit their plans for recruiting workers to the central authorities for examinations and approval, and they must act strictly according to the plans approved.

After September 1959 the General Administration of Civil Aviation of China (CAAC) and 31 coal-mining administrative bureaus and a number of oil prospecting teams whose operations spanned several provinces or autonomous regions were put under the dual leadership of the central authorities and local authorities, with the former assuming the major responsibility.

In the nine months from winter 1958 to July 1959, efforts were made to correct the "Leftist" mistakes in the "great leap forward" and the movement to establish people's communes. Certain results were achieved, but it must be admitted that the work done in this respect was not thorough, for it was carried out under the precondition of basically confirming the "great leap forward" and the movement to set up people's communes. Although some totally unrealistically high targets were corrected, other high targets remained untouched, and although egalitarianism in the movement to set up people's communes was criticized and opposed, things which were egalitarian in essence — such as the large-sized basic accounting units, the supply system and canteens that served free meals — were kept intact.

XVII "Left" Errors Continue After Lushan Meeting

Section I From Correcting "Left" Errors to Combating Right Deviation Mistakes

The Central Committee of the Chinese Communist Party held an enlarged meeting of the Political Bureau and the Eighth Plenary Session of the Eighth Party Central Committee successively in July and August 1959 in Lushan, Jiangxi Province.

The enlarged Political Bureau meeting began on July 2, and was originally scheduled to further sum up the experiences and correct the "Left" errors which had come to the notice of the leadership.

When the meeting began, Mao Zedong pointed out that the situation at that time was characterized by "great achievements, numerous problems and a bright future." He stressed that while doing a good job in agriculture, plans should be worked out to develop agriculture, light industry and heavy industry, in that order, so as to achieve an overall balance in the national economy.

In the course of discussions, controversy arose over the evaluation of the mistakes made in the preceding period. Peng Dehuai, Member of the Political Bureau of the Party Central Committee and Vice-Chairman of the Central Military Commission, wrote a letter to Mao Zedong on July 14, stating his own views. Two days later, Mao Zedong made his comments on the letter and had them mimeographed and distributed to all the participants. This touched off a great storm which diverted the course of the meeting.

In the first part of his letter Peng Dehuai, after fully affirming the achievements made, drew attention to certain shortcomings and mistakes in the "great leap forward" and the movement to set up people's communes. The second part of the letter was on how to sum up the experiences and lessons. Peng Dehuai held that petty bourgeois fanaticism was the reason why "Left" errors were committed by people who fondly wished that communism could be realized overnight. He said that they had banished from their mind the mass line and the working style of seeking truth from facts, which the Party had followed over a long period of time. These people

had forgotten that they could not substitute putting politics in command for economic laws, still less for concrete measures in economic work.

These comments and the way they were put forward were all beyond criticism. Mao Zedong, however, mistakenly held that they reflected the "bourgeoisie's proneness to waver" and constituted an attack against the Party. He even regarded the controversy between differing views within the Party as a "continuation of the life-and-death struggle between the two major antagonistic classes, the bourgeoisie and the working class, in the socialist revolution of the past decade."

Mao Zedong considered that since efforts had already been made to correct the mistakes after the first Zhengzhou conference, we should not do anything to dampen the enthusiasm of the people in the mass movement. Moreover, he held that Right deviationist sentiments, thinking and activities inside and outside the Party had increased and were ready to launch a furious attack against the Party. Therefore, he deemed that it was high time to make a counterattack so as to enhance the initiative of the people.

Peng Dehuai's letter was discussed and repudiated in the latter half of July. Immediately after that, the Eighth Plenary Session of the Eighth Party Central Committee was convened from August 2 to 16. The session continued to expose and criticize the so-called Right opportunist anti-Party clique headed by Peng Dehuai, which actually was non-existent, and a resolution on this issue was adopted at the session.

On August 16 the plenary session adopted several documents including "Struggle in Defence of the Party's General Line and Against Right Opportunism." Following this, the anti-Right deviation struggle spread to all the Party and government institutions and the grass-roots units all over the country. Thus, not only was the work of correcting "Left" errors cut short, the "Left" deviation mistakes continued to develop in the political, theoretical, economic and other fields, causing serious damage to the nation.

This anti-Right deviation struggle seriously jeopardized normal democratic life in the Party and dealt serious blows to a great number of people who dared to report the actual situation to the Party or voice their true opinions. As a result, individual dictatorship and the personality cult got the upper hand.

During the anti-Right deviation struggle, even the discussions of the economic targets and the high or low rate of development were also

regarded as manifestations of "the life-and-death struggle of the two major antagonistic classes." As for Peng Dehuai, he was labelled as a "Right opportunist," a "bourgeois revolutionary within the Party" and a "fellow-traveller of Marxism."

At the Eighth Plenary Session of the Eighth Party Central Committee, an official resolution was adopted on the readjustments made previously regarding the targets for the annual economic plan approved by the National People's Congress in April 1959. In accordance with this resolution, Zhou Enlai said in his report at the meeting of the Standing Committee of the National People's Congress on August 26, 1959 that the output of steel was to be reduced from the originally planned 18 million tons (including steel made by indigenous methods) to 12 million tons (not including steel made by indigenous methods), and that steel produced by indigenous methods was to be used by the localities themselves; the output of coal was reduced to 335 million tons from 380 million tons, and total industrial output value was brought down to 147 billion yuan from 165 billion yuan. The output of grain was reduced from 525 million tons to 275 million tons, and the output of cotton from 5 million tons to 2.31 million tons. Total agricultural output value was also brought down from 122 billion yuan to 73.8 billion yuan. As regards capital construction, the total investment was reduced from 27 billion yuan to 24.8 billion yuan, and the number of large and medium-sized construction projects was cut from 1,092 to 788.

The reduction made during this readjustment was quite big as compared with the plan approved in April. But the readjusted targets remained fairly high when compared with the actual production of the previous year, with steel output up 50 percent, coal up 24.1 percent, grain up 37.5 percent and cotton up 17.4 percent.

The readjustment of the 1959 plan was soon followed by the campaign to "oppose Right deviation and rouse the initiative of the people." As a result, the targets were raised again and again, and the people were urged to overfulfil the yearly plan as quickly as possible and meet the major targets set forth in the Second Five-Year Plan two years ahead of schedule.

For instance, it was decided in October 1959 that the investment in capital construction be increased to 6.36 billion yuan and the number of large and medium-sized projects be increased to 230.

As a matter of fact, total investment in capital construction in 1959 exceeded the increased figure in the plan by 3.3 billion yuan.

Another case in point was agriculture. In 1959, China was hit by a serious natural disaster, with an afflicted area of 13.33 million hectares, or one-eighth of the cultivated land. This was unprecedented in the post-liberation years. But in October that same year, another decision was made to increase the year's total output value of agriculture and sideline occupations by 15 percent over that of the previous year. This was meant to show that even in a year of serious natural calamity, a "great leap forward" could be achieved in agriculture. The harsh fact was that the output value of agriculture and sideline occupations in 1959 was 13.6 percent less than that of 1958.

What was more serious was that the readjustments made by the various localities in summer 1959 were regarded as the results of the "right opportunist tendencies" and should therefore be exposed and repudiated. This not only negated the work of correcting the "left" mistakes in the rural people's communes in the first half of the year, but promoted the further development of these mistakes in the rural areas.

Section II The New "Leap Forward" in the First Half of 1960

The enlarged meeting of the Political Bureau of the Party Central Committee held in Shanghai in January 1960 forecast another "great leap forward" in 1960, and one with greater momentum than in 1959. The meeting went so far as to make the oversimplified statement that if the bourgeoisie could achieve a much faster economic growth in one hundred years than in the past several thousand years, why couldn't the proletariat achieve a "great leap forward."

Such arguments exerted great influence on the drawing up of the 1960 plan and the additional plan for the last three years of the Second Five-Year Plan. The 1960 national economic plan adopted at the meeting once again raised steel output to 18.4 million tons. The meeting also put forward the proposition that the rural people's communes complete the change from ownership by the production teams as the basic form to ownership by the communes in eight years.

The new round of the "great leap forward" in the first half of 1960 found expression mainly in the following aspects.

The targets were set unrealistically high, higher than the previous ones.

It was proposed in a report on the 1960 plan to the Second Session of the Second National People's Congress held in March 1960 that total industrial output value should increase by 29 percent on the basis of the 1959 increase of 39.3 percent, and total agricultural output value should increase by 12 percent on the basis of the 1959 increase of 16.7 percent. It was also proposed that the production of steel, coal, grain, cotton and pigs as well as rail and truck freight volume should increase by 10-57 percent. These targets were obviously too high. The fact was that in 1960 only 77.9 percent of the targeted industrial output value were met; for agricultural output values, only 51.9 percent were fulfilled; for grain, it was 48.3 percent; for cotton, it was 40.1 percent, for pigs, it was 30.2 percent; and for truck freight volume, it was 31.1 percent.

Still worse was the fact that the above-mentioned high targets were merely "the first account book," which was dwarfed by a second account book containing higher targets the Party was obliged to meet. The call was also issued to "struggle for the fulfilment and overfulfilment of the industrial production plan with the production of 20.4 million tons of steel as the key link."

Serious disproportionate development began to surface in the fourth quarter of 1959. In spite of this, it was proposed that the production level in the first quarter of 1960 should be not lower or slightly higher than that of the previous quarter. Though production showed signs of a slowdown soon afterwards, it was still held that there would be an upsurge in production in May and June, an upsurge centred around the production of coal, iron, mineral ores and transportation. This in turn gave birth to the demand that "the yearly targets be met around 50 percent in the first six months."

The anticipated upsurge failed to materialize and the fulfilment of the required targets also fell through. Instead of drawing a lesson from this, another call was issued to bring about a "new and higher upsurge in increasing production and practising economy" in the third quarter. As a matter of fact, the output of coal and other major products dropped sharply with each passing day after July. Concentrated efforts were made to force up steel production after October, but this was accomplished at the expense of other sectors of the national economy.

In May 1960 it was pointed out that in capital construction, the

principle of simultaneously developing large, medium-sized and small projects, with the focus on the medium-sized and small projects, must be followed. It was estimated at that time that of the 2,000 counties and cities across the nation, about 1,500 were blessed with coal and iron-ore resources, but only about two-thirds of them had built iron and steel mills. Thus all the counties and cities with coal and iron-ore resources were called upon to build in 1960 at least one small industrial centre with the coal and iron industries as the mainstay. Rural people's communes with the necessary conditions should also do their utmost to build small coal, mining and iron-smelting enterprises. Statistics showed that the number of workers and staff members in the small industries in 21 provinces, municipalities and autonomous regions accounted for 55.2 percent of the nation's total at that time.

The new "great leap forward" campaign that swept China in the first half of 1960 was characterized by a government call that all departments and localities should, through launching mass movements and with the determination and spirit shown in the campaign to boost steel output, go in for technological innovation and technological revolution. They were called upon to realize mechanization and semi-mechanization and then on to accomplish automation and semi-automation at a higher than normal speed. In this way, there soon emerged an upsurge in the mass movement for technological innovation and technological revolution throughout the country.

According to a survey made in 24 provinces and autonomous regions, workers and staff in the industrial, communications and transport departments alone put forward more than 25.3 million proposals for technological innovation from January to early March 1960, and 9.65 million of them were adopted.

However, there were many cases of exaggerated figures, false reports and waste in the mass movements. For instance, it was proposed that mechanization and semi-mechanization, automation and semi-automation in the industrial, communications and transport departments should be raised to 60 or 70 percent or a little higher. But about one-fourth of the 203 major technical innovation proposals put forward for popularization were in fact not good enough, and some were so poor that they should not be popularized at all.

In March 1960 the Party Central Committee called on the various

localities to adopt a positive attitude and go all out to mobilize the people to form urban people's communes of various kinds on a trial basis. It proposed that experiments be carried out in the first six months before setting up communes in all the cities in the second half of the year. By the end of July 1960, more than 1,000 people's communes had been set up in the large and medium-sized cities, with the number of commune members accounting for 77 percent of the country's total urban population.

At that time, neighbourhood industries and various kinds of collective establishments such as public canteens, nurseries and kindergartens mushroomed in the cities. Practically all of them started from scratch and were set up by encroaching on the private houses and property of many city dwellers.

In March 1960, the Party Central Committee issued a directive to go on setting up public canteens on an extensive scale in the countryside. According to statistics, 72 percent of the rural population took meals in these canteens by the end of 1959. But the directive required that this be raised to 80 percent and, if possible, to 90 percent.

The rationale behind all this was that these public canteens were socialist positions which must be maintained and that they were places of sharp class struggle in the rural areas at that time. Therefore, doing a good job in running these canteens and providing convenience for the people's daily life were regarded as matters of importance to class struggle.

According to reports, 94 percent of the rural commune members in Guizhou Province had their meals at the public canteens. But they did so against their own will and were very unhappy about it, for the canteens, which were divorced from the actual living conditions of the peasants, gave them great inconvenience and even cut their rations.

As expected, the new "great leap forward" in the first half of 1960 turned out to be even more disastrous to the national economy than the one that took place in the summer and fall of 1958. The shortage in the supply of food grain was the first indication. The allocation and transportation of grain after spring 1960 was far from satisfactory, and the quota for May was met only by half. The grain shipped to Beijing, Tianjin, Shanghai and the industrial cities of Liaoning Province was sold out in no time. This alerted the people to the stark reality.

At the Shanghai meeting held by the Party Central Committee in June 1960, Mao Zedong summed up some of the mistakes made in the course of seeking the correct way of construction and in the "great leap forward." He said that during this period the way of thinking was somewhat incorrect and that the principle of seeking truth from facts had not been observed. However, even in these circumstances, the excessively high targets set in the 1960 plan were not changed, and there was serious disproportion in the development of the national economy, which had landed in an impasse.

Section III Major Manifestations in the Disproportionate Development of the National Economy

During the three years of the "great leap forward" from 1958 to 1960, a number of key projects were set up after mobilizing an unprecedented amount of labour force and equipment, financial and material resources.

A survey made in 1964 showed that in many departments of heavy industry, the large and medium-sized projects built after 1958 accounted for two-thirds of the projects built in the 15 years after the founding of New China.

Of the newly added production capacity in the 1950-79 period, the production capacity added in the three years from 1958 to 1960 accounted for one-fourth to one-third of the total, namely, 36.2 percent for steel-making, 32.7 percent for iron-smelting, 29.6 percent for coal output, 33.8 percent for machine-made paper, and 25.9 percent for spindles. During the Second Five-Year Plan (1958-62) period, investment in capital construction totalled 118.6 billion yuan, and the scale of newly added fixed assets registered an 84 percent increase over that of the First Five-Year Plan period, and the increase was mostly realized in the 1958-60 period.

Also during this period, the Daqing Oilfield, which has contributed greatly to the development of China's national economy, was opened up; a breakthrough was achieved in atomic technology; and ten major architectures were built in Beijing. But the ideology guiding economic work at that time was divorced from the reality and there was the tendency for quick success in total disregard of actual results. In particular, after the Lushan meeting in 1959 an anti-Right deviationist movement, which was wrong in essence, was launched and high economic targets were still

pursued. All this, plus other objective factors such as successive lean years due to natural disasters and Soviet withdrawal of experts and pressure for our repayment of debts, caused an all-round imbalance in the national economy. The major manifestations were:

(1) Disproportion Between Accumulation and Consumption.

In the use of the national income, the proportionate relationship between accumulation and consumption (i.e., arrangements for capital construction and people's livelihood) fell into disarray. This was an important cause of the many imbalances in the national economy.

During the First Five-Year Plan period, accumulation accounted for only 24.2 percent of the national income. But the accumulation rate averaged 39.1 percent from 1958 to 1960, and total accumulation in these three years amounted to 143.8 billion yuan, or 44 percent more than the aggregate sum in the First Five-Year Plan period. The accumulation rate in 1959 and 1960 was the highest ever since liberation.

From 1957 to 1960, as the capital construction undertaken went beyond the nation's actual capabilities, projects that were completed and put into operation dropped from 26.4 percent to 9.8 percent. For instance, many reservoirs built in 1960 with a storage capacity of 100 million cubic metres of water or more were destroyed by floods or torrents due to their poor quality. And most of the small coal pits and iron works built at that time had to suspend production or close down because of their low efficiency and high production cost.

The economic result of accumulation was fairly good during the First Five-Year Plan period, and for every 100 yuan of accumulation, an average of 35 yuan of national income was created. But in the 1958-60 period, the national income created by every 100 yuan of accumulation decreased with each passing year, from 55 to 19 and further to minus 0.4 yuan. This showed the continuous worsening of the business cycle.

The investment in capital construction was over-concentrated in production projects to the negligence of the non-productive ones which, on the average, accounted for 28.3 percent of the total investment during the First Five-Year Plan period, but dropped by more than half in the first three years of the Second Five-Year Plan, i.e., 12 percent in 1958, 3.2 percent in 1959 and 13.6 percent in 1960. All this could not but affect city construction and the people's livelihood.

(2) Disproportionate Development Between Industry and Agriculture

From 1957 to 1960, total industrial output value (calculated in terms of unchanged prices) had increased from 70.4 billion yuan to 165 billion yuan, or an increase of 130 percent, while total agricultural output value had decreased from 53.7 billion yuan to 41.5 billion yuan, or a 22.7 percent drop. The ratio between industry and agriculture had changed from 5.7:4.3 to 8:2.

The most outstanding and serious problem at that time was grain production which had dropped from 195.05 million tons to 143.5 million tons, lower than the 1951 figure. Meanwhile the nation's population in 1960 was 16 million more than in 1957. The food grain kept in storage by the state continued to decrease, and in 1960 the amount sold was 6.2 million tons more than the amount purchased by the state. This was especially so in Sichuan, Jilin and Heilongjiang, the commodity grain production bases, where the grain reserves were depleted due to successive crop failures and little grain could be shipped out to other parts of the country.

Owing to the strained supply of grain, the state had to collect and purchase more grain from the farmers; the acreage sown to the fodder crops had to be reduced so as to ensure the supply of rations; and economic crops had to give way to the food crops. As a result, agricultural production plummeted in an all-round way. From 1957 to 1960 the output of cotton and oil-bearing crops dropped by 35.2 percent and 54.8 percent respectively, and the number of pigs decreased by 43.6 percent. Beijing, Tianjin and Shanghai even had difficulty in ensuring the rationed amount of edible oil, and soap production dropped drastically due to the insufficient supply of animal fat and vegetable oil.

The natural disasters in that period were the most serious after liberation. It was estimated that in 1959 the afflicted area covered 13.33 million hectares and grain production dropped by 10-15 million tons. In 1960, the afflicted area covered 24.66 million hectares and grain output decreased by 15-20 million tons. But this accounted for only about one-third of the total amount of decrease in grain production.

The major reason for the decrease was essentially the implementation of "Left" policies. In the three years the state underscored time and again the importance of simultaneous development of industry and agriculture, and in the 1957-60 period, state investment in agriculture had increased from 1.27

billion yuan in 1957 to 2.8 billion yuan in 1958, 3.62 billion yuan in 1959 and 4.99 billion yuan in 1960. But because industrial construction developed too fast, agricultural development was seriously affected.

In the mass movements to build industrial enterprises and water conservancy works, large numbers of young and able-bodied farmers had been mobilized to take part. Thus in 1960 the number of peasants working in the fields had been reduced by 40 million compared with the 1957 figure. Moreover, most of them were either women or the old and the weak. The ratio between the industrial and agricultural workers in 1957 was 1:13.8, but in the first three years of the Second Five-Year Plan period (1958-62), it plummeted to 1:3.5, 1:5.6 and 1:5.7.

In the countryside, besides the hasty establishment of the accounting system at the production brigade and commune levels, the labour force and financial and material resources of the production teams and commune members were requisitioned without any compensation. This seriously dampened the enthusiasm of the farmers for production.

With the over-rapid increase of industrial workers and urban population and the excessively high estimation of agricultural production, the collection of agricultural tax in kind and the purchase of surplus grain by the state also increased. From 1957 to 1960, while grain output continued to drop year by year, the proportion of state collection and purchase of grain went up from 24.6 percent to 35.6 percent of the total amount produced. And because less grain was retained in the countryside, the production activities and livelihood of the farmers became more difficult than ever before.

(3) Disproportionate Development Within the Industrial Sector and Communications and Transport

At that time, to achieve the high target set for steel production, desperate efforts were made to have more pig iron, nonferrous metals, coal, transport facilities, labour power, and so forth. As it would be too late to build large factories, the old enterprises were made to go all out to increase production. In addition, small enterprises, which consumed more raw materials and fuel than the others and could produce only low-quality products, were also set up in a hurry. Ironically, while the natural resources were constantly put under intensified exploitation and a large proportion of equipment was damaged due to over-loaded operation, the quality of

products went downhill. Meanwhile, more coal, iron-ore and other raw materials were needed because of their poor quality, but the mining industry lagged far behind the needs of the metallurgical and processing industries.

Such a situation was particularly manifest in 1960. The nation's capacity for steel-making reached 17 million tons, but the mining industry could only meet the need of making 12 million tons of steel. In the key mining areas, the damaged equipment had crippled one-third of the production capacity.

From 1957 to 1960 coal output had increased from 130 million tons to 397 million tons. During this period, the amount of coal needed for the iron and steel industry had increased by 260 percent, and major cuts had to be made in the amount of coal for use in transport and communications and in the people's daily life. Even so, there was not enough coal for the iron and steel industry. The fact at that time was that nearly 60 percent of the coal came from the old mines which were exploited in an intensified way and from the small mines which were operated by indigenous methods. Production in the major coal mines began to drop sharply in July 1960 due to the slow rate of tunnelling and the damaged equipment. By November 1960, many enterprises suspended production entirely or partially because of the shortage of coal. In many areas, trees were felled and old houses were torn down for use as firewood, and there were even cases of coal robbery.

In the 1957-60 period, total industrial output value went up by 130 percent. In particular, there was a 360 percent increase in pig iron production, a 480 percent increase in iron-ore and a 203 percent increase in coal output. On the other hand, the nation's freight volume increased only by 110 percent, lagging behind the needs of increased coal and iron output. In 1960, the nation's total freight volume, including civilian transportation, was 2.55 billion tons. As China's normal transportation capacity at that time was merely 2.1 billion tons, the above-mentioned freight volume was achieved through overloaded hauling and short-distance transportation by the farmers. In spite of such efforts, about 30 percent of iron-ore and 20 million tons of coal still could not be shipped out of the mining areas.

The short-distance transportation involved about 10 million farmers. But because the vehicles and ships were seriously damaged, the transportation capacity was further affected and an even more serious imbalance between industry and transportation resulted.

The ratio between the output value of heavy and light industries in the

First Five-Year Plan period averaged 59.2:40.8, but it dropped to 1:2 in the 1957-60 period.

From 1957 to 1960, investment in light industry went up to 1.56 billion yuan from 810 million yuan and light industrial output value registered a pretty fast increase. But beginning from 1960, total light industrial output value dropped by a big margin year after year. While this had much to do with the policy of ensuring steel production at the expense of light industry which lacked the coal and transportation means needed for its development, the principal reason was the all-round reduction in agricultural production. Consequently, there was a serious imbalance between light industrial capacity and the amount of raw materials agriculture was able to supply.

For instance, the production capacity of cotton yarn and edible oil increased by 31 and 4 percent respectively in 1960 over 1957, but the output of cotton and oil-bearing crops dropped by 36 and 54 percent. The drastic fall in the output of light industrial products resulted in a serious shortage in market supply.

(4) The imbalance between revenue and expenditure widened, so did the gap between the social purchasing power and the amount of commodities available on the market.

While agricultural and light industrial production dropped by a big margin, financial expenditure and credits increased incessantly due to the expansion of capital construction, the high rate of recruitment of new workers, the overstocking of products and the losses incurred by the enterprises. This greatly widened the gap between the social purchasing power and the supply of commodities.

In order to have enough construction funds to keep the "great leap forward" going, the state amassed the money through financial channels and through credits and loans. The national income increased from 34.1 percent in 1957 to 29.6 percent in 1958, 47.3 percent in 1959 and 52 percent in 1960. Such an increase rate and scale was unknown before. Bank loans extended to industry increased 12-fold and bank loans for commerce also increased 2.3 times.

Financial expenditures and bank loans at this time were, to a large extent, sham in character. As a matter of fact, a comparatively large amount of investment in capital construction came from the circulating funds and equipment maintenance expenses of the enterprises, bank credits, funds for

keeping the enterprises in normal operation, and other sources at the expense of the people's standard of living.

To make up the loss, the state earmarked large sums of money later when dealing with financial problems that were kept in account before 1961 and had to be solved.

It was discovered later that in the three years from 1958 to 1960, financial deficits amounted to 2.18 billion yuan, 6.58 billion yuan and 8.18 billion yuan respectively, their proportion in the nation's total expenditures being 5.3 percent, 11.9 percent and 12.5 percent. Bank loans dipped into serious imbalance too, forcing the banks to issue large amounts of currency.

Beginning from 1958, more money was issued than recovered for three years running. By the end of 1960, the currency in circulation increased by 81.7 percent, which was unprecedented since 1950, the year when the nation's financial and economic work was brought under unified planning.

Social purchasing power had increased by 46.8 percent from 1957 to 1960. The wages of workers and staff in the state-owned and collectively owned enterprises had increased by 48.9 percent, and the purchasing power of organizations in the cities and towns had also increased by an average of 1.08 billion yuan a year. On the other hand, commodities on the market, especially food and clothing, were in short supply. Due to the decrease of exports and overseas remittances, foreign exchange reserves plummeted to the degree that the country could not afford to increase the import of consumer goods, but had to use the goods in stock to cope with the situation. Compared with 1957, the reserves of grain, printed cloth, cotton yarn and other major consumer goods in 1960 had been greatly depleted. The social purchasing power in 1960 was far greater than the supply of retail goods, the gap being 10.4 percent of the social purchasing power that year. In 1960, the per-yuan reserve of consumer goods destined for sale on the home market was 21.1 percent less than the 1957 figure.

In 1957-60 period, the average annual per-capita consumption of food grain fell 19.4 percent — a 1.7 percent drop in the cities and towns and a 23.7 percent fall in the countryside; and the average per-capita consumption of pork dropped by 69.9 percent nationally — a 69.8 percent drop in the cities and towns and a 72 percent decrease in the rural areas. The average per-capita consumption of cotton cloth in the 1957-61 period dropped by 58.6 percent — a 55.3 percent fall in the cities and towns and a 61.5 percent drop

in the countryside. All this was unprecedentedly low in the post-liberation years.

XVIII Transition to All-round Readjustment

Section I The Policy of "Readjusting, Consolidating, Filling Out and Raising Standards"

To overcome the enormous difficulties in the national economy caused by the "great leap forward," the Party Central Committee put forward the policy of "readjusting, consolidating, filling out and raising the standards" of the national economy.

This policy was formulated step by step.

At the Shanghai meeting convened by the Party Central Committee in June 1960, Mao Zedong stressed the principle of seeking truth from the facts. He pointed out that whereas quantity was emphasized in the previous two years, 1960 should be a year in which variety and quality should be placed above quantity. The 1960 annual targets should be readjusted and there should be some leeway.

From early July to August 10, the Party Central Committee convened a work conference in the summer resort of Beidaihe. During the conference, the Soviet Government suddenly informed China of its unilateral decision to withdraw all the Soviet experts working in China within one month. It tore up the 348 construction contracts and agreements it had signed with China, annulled the 257 scientific and technological co-operation projects and stopped the supply of all materials and equipment. This aggravated China's economic difficulties.

On September 30 that year, the Party Central Committee put forward for the first time the policy of "readjusting, consolidating, filling out and raising standards" in transmitting a report on the controlled figures for the 1961 national economic plan.

At the Ninth Plenary Session of the Eighth Party Central Committee held in Beijing in January 1961, this plan was the major topic of discussion. In his report to the session Li Fuchun, Minister in Charge of the State Planning Commission, pointed out that beginning from 1961 the state would devote two to three years to readjusting the relationships between the various departments, consolidating the great results gained in developing the productive forces and transforming the relations of production, filling out the contents of those newly developed enterprises and raising the standards of the new undertakings which needed to be improved. He said that in making arrangements for the national economy in 1961, efforts should be made to promote agriculture and appropriately curtail the scale of industrial construction. In industrial production and construction, he said, the order should be: production first, capital construction second; mining first, processing second; maintenance first, manufacture second; accessory parts first, main parts second; quality and variety first, quantity second. The plenary session discussed and adopted his report and formally decided to implement the policy of "readjusting, consolidating, filling out and raising standards" in economic construction starting from 1961. The communique of the Ninth Plenary Session of the Eighth Party Central Committee pointed out: "The whole country must concentrate efforts on strengthening agricultural work, implementing the policy of taking agriculture as the foundation, and going in for agriculture and grain production in a big way." "Properly reduce the scale of capital construction, readjust the tempo of development; and on the basis of what has already been gained, implement the policy of consolidating, filling out and raising standards."

Section II Gradual Attainment of Unity in Thinking

In implementing the aforementioned policy, the focus was on readjusting, so as to quickly improve the proportionate development between the various branches of the national economy and the relations of production.

However, the "Left" ideology was not liquidated at the Ninth Plenary Session. Although common understanding was achieved on the necessity of readjusting agriculture, the lack of knowledge of the whole situation led to

differing views on the seriousness of the nation's economy as a whole and especially on the question whether the scale of industrial production and construction should be greatly reduced. It was true that the scale of capital construction in 1961 was somewhat curtailed and the pace of industrial development was slowed down a bit, but because of the unduly high estimates in the previous year, the major targets set for 1961 were, in essence, still too high. In the 1961 economic plan adopted by the Ninth Plenum, for instance, the total output value of agriculture was 65.5 billion yuan and that of industry was 231 billion yuan, 10 and 8 percent higher than the figures estimated to have been fulfilled in 1960. If the 1961 planned targets for agricultural and industrial production were compared with the actually fulfilled figures of 1960, the increase was 58 and 40 percent higher respectively. The planned targets for grain and cotton output were 42 and 50 percent higher than the actually fulfilled figures of 1960. Obviously these ambitious targets could not be reached.

Following the issuance of the directive to go in for agriculture and grain production in a big way in August 1960, the Party Central Committee issued three months later the "Urgent Directive on the Current Policies Regarding the Rural People's Communes." On the basis of deep-going investigations by leaders at various levels, the Party Central Committee convened two work conferences in Guangzhou and Beijing in March and May 1961 to discuss the "Rules Governing Work in the Rural People's Communes (draft)," which were later sent to the rural areas for discussion and trial implementation. The main points of these documents were:

(1) Readjusting the system of ownership and distribution in the people's communes. The three-level system of ownership of the means of production in the people's communes, with the production teams as the basic accounting unit, was reaffirmed. It was also stipulated that the communes should not intervene in the production activities of the production teams. In organizing co-operation among the production teams, the principles of voluntary participation, mutual benefit and exchange of equal values should be upheld. The people's communes and production brigades were forbidden to requisition the funds, materials, farm tools, equipment, timber and draught animals owned or allocated for use by the production teams.

All the means of subsistence and small farm tools and other means of

production owned by the commune members should for ever belong to them and no one was allowed to encroach upon their rights in this respect. The small plots for private use by the commune members were to be given back to them and they should be allowed to engage in household sideline occupations and handicraft production. Rural fairs were to be restored.

In the distribution of income, the system of supplying part of the means of subsistence, which was practised in the past, was to be abolished. The work-point system based on an evaluation of the work done and the system of distribution according to the number of work-points gained should be strictly followed.

As to the public canteens, it was clearly stipulated that they should be closed down.

In addition, to enable 90 percent of the commune members to increase their income, the portion to be distributed among the members for consumption should in general occupy 65 percent of the commune's distributable income, and about 70 percent should be distributed in communes and production brigades which had not gathered in a good harvest. The public reserve fund and welfare fund should be kept within 3-5 and 2-3 percent respectively. The number of work-days for capital construction should be kept at around 3 percent of the basic work-days of a commune member in a year.

(2) Resolutely carrying out the restitution policy. All the personal property of the commune members and their labour force requisitioned without compensation since the movement to form the people's commune should be returned and compensated without exception. The collective might, with the owners' consent, rent any surplus house or furniture of the commune member. All the labour services that had been requisitioned without pay should be compensated. The state would give the necessary assistance to the communes and production brigades which had difficulty in the repayment.

(3) Reducing the agricultural tax in kind and purchase of surplus grain by the state. The quota for delivery to the state in 1961 was 40.47 million tons of grain, 10.6 million tons less than in the previous year, and its percentage in the total annual output of grain dropped from 35.6 to 27.4. In 1962 the quota was further reduced to 38.15 million tons, which was 23.8 percent of the total grain output that year. Meanwhile, the agricultural tax

rate was readjusted so that the actual national average agricultural tax rate (i.e., the proportion of the actual amount of tax plus local additional tax in the actual agricultural income) would drop from 11.6 percent in 1957 to less than 10 percent. According to the new tax rate, the amount of agricultural tax levied in 1961 was 29 percent less than in the year before.

(4) Economizing manpower from various fields to reinforce farm work. Starting from autumn 1960, apart from reducing the scale of water conservancy and other capital construction projects on the farmland, county and commune-run factories, diverse economic undertakings and cultural, educational and health units were to be streamlined so that as many able-bodied people as possible could be transferred to reinforce farm work. In the urban areas, workers recruited from the countryside and those who had drifted to the cities aimlessly should be encouraged to return to the rural areas. Thus, by the spring of 1961, there were 29.13 million more people working in the countryside, and the rural labour force made up 39 percent of the total rural population.

(5) Raising the purchasing price of agricultural and sideline products and formulating adequate policies on purchase and marketing. Starting from 1960, the purchasing price was raised by an average of 5 percent for grain bought after state quotas had been fulfilled in the main grain-producing areas. It was stipulated that beginning from January 1961 adequate amounts of grain should be set aside for the personal use of the grain producers while making the purchases, and bigger amounts should be retained by those who produced more. At the same time the purchasing prices were to be raised at an average of 20 percent for grain, 13 percent for oil-bearing crops, 26 percent for pigs and 37 percent for poultry and eggs. In some provinces and municipalities, the purchasing prices for cured tobacco, jute, tea and other agricultural products were also raised by the big margin of 30-50 percent.

In April 1961, a policy of awarding a certain amount of grain was implemented in purchasing cotton, oil-bearing crops, cured tobacco, jute, tea, sugar crops and other major cash crops. For every 50 kg of cotton sold, the producer would be awarded 17.5 kg of grain, and for every 50 kg of shelled peanuts, sesame or cured tobacco, the producer would get 10 kg of grain.

In the meantime, the central government adopted different policies for the purchase of different agricultural and sideline products. For grain,

cotton and edible oil, the policy of state monopoly purchase and marketing would be continued; for 24 other kinds of products including pigs, cattle, sheep, fowls, eggs and cured tobacco, the quotas of purchase by the state would be fixed according to contracts and these products could be sold freely on the market after state quotas had been fulfilled; the remaining agricultural and sideline products could be sold on the market at negotiated prices.

(6) Aiding agriculture by all trade, with the major role played by industry. More rolled steel, timber, bamboo, tung oil and other materials were allocated to the countryside, and handicraftsmen and some industrial enterprises were organized to repair or make as quickly as possible small and medium-sized farm tools, farm machines and transportation facilities.

Rollled steel used in aid of agriculture and for making agricultural machinery in 1961 amounted to 700,000 tons, 43 percent more than 490,000 tons in 1959. By 1962, the farmers possessed more or less the same amount of small and medium-sized farm tools as they did in 1957, or an average of five for each able-bodied farmer, and farm machinery had a total of 9.11 million hp in 1961, an increase of 66 percent over 1959.

Great efforts were made to ensure the supply of chemical fertilizers and insecticides. In 1960 the supply of chemical fertilizers and insecticides was 3.16 million tons and 660,000 tons respectively; the supply dropped to 2.24 million tons and 450,000 tons in the following year, but increased again to 3.11 million tons and 630,000 tons in 1962.

While the scale of construction was reduced steadily, the proportion of investment in agriculture and in the tractor-making, chemical fertilizer and insecticide industries in the total investment in capital construction rose from 16.7 percent in 1960 to 24.7 percent in 1962.

At the time when the system of ownership in agriculture was being solved, the Party Central Committee issued in June 1961 the "Regulations on Certain Policies Regarding Handicraft Industry in the Urban and Rural Areas (draft)." The draft regulations stipulated that handicraft producers' co-operatives or groups which had been transformed into state-owned or commune-owned industrial enterprises should be resolutely switched back, for the transformation was not conducive to the development of production and not convenient to the people's livelihood. The principles of "to each according to his work" and running the co-ops democratically and frugally

should be followed, and the state must not force them to accept its plan in production, but could only readjust their production through consultations.

In January 1961, the central authorities decided to readjust the system of economic management. All the rights to manage production, capital construction, materials, labour force, purchase and financial affairs should be concentrated by and large in the hands of the central authorities or the central bureau concerned within two to three years. The right to issue currency belonged to the central authorities, the power over financial affairs was to be concentrated, and no budgets with deficits were allowed. At the same time, the central authorities tightened up control over the management of the budget and funds outside the budget, strengthened the management of the enterprises' funds and costs, improved supervision over financial appropriations for capital construction and the work of tax collection.

The central authorities also decided that starting from January 1961, the average percentage of the profits to be retained by the enterprises was to be reduced from 13.2 to 6.9. The money so retained should not be used on extra-plan capital construction projects, but could only be used for technical innovation, the needs of comprehensive utilization, the workers' bonuses and welfare undertakings.

With a view to readjusting the relationship between the cities and countryside, alleviate the burden of supply from the countryside, stabilize prices, tighten financial expenditure and issuance of currency, the government spared no efforts to reduce the population in the cities and towns. The target was 10 million of the 130 million people in the cities and towns at the end of 1960 were to be sent back to the countryside in 1961, and the government organizations and state-owned enterprises would be streamlined so that 9.6 million of the 50.44 million workers and staff would be reduced. It was estimated that if the urban population could be reduced by 10 million, the supply of grain to the cities and towns could be cut by 1.5 million to 2 million tons, and the supply of coal and vegetables could be cut by 2-3 million tons and 750,000 tons respectively, and appropriations for wages would be reduced by 2 billion yuan.

Government organizations at various levels were urged to streamline their setups or to merge, as the case might require, so that one-third or half of their personnel would be reduced. Workers and staff in state-owned enterprises and government offices, especially those recruited from the rural

areas since 1958, should be encouraged to go back to reinforce agricultural production. By the end of 1961, the number of workers and staff had in this way been reduced by 8.72 million and the population in the cities and towns had decreased by 10 million.

In order to alleviate the pressure on market supply, the government decided to slash the purchasing power of social organizations from 7.53 billion yuan in 1960 to between 4 billion and 5 billion yuan in 1961. The financial department froze for the time being the deposits of the government offices, people's organizations, army units, schools and various undertakings and reduced part of the appropriations in the budget allocated to these organizations. Thus, by the end of 1961, the purchasing power of the social organizations had been reduced to 4.94 billion yuan, a drop of 2.6 billion yuan as compared with 1960.

In order to restore and develop the production of articles in daily use and handicraft, the government gave them priority in the supply of fuel, energy, raw and semi-finished materials as well as equipment. At the same time, it concentrated efforts on producing and trial-manufacturing new-type industrial raw materials such as chemical fibre, plastic and glass fibre to supplement the supply of agricultural raw materials. Efforts were also made to increase the production of goods in short supply such as iron sheets, cold drawn rolled steel, galvanized steel sheets and seamless tubes of small diameter. This was aimed to meet the needs of producing light industrial articles for daily use and gradually ease the strained situation on the market.

During this period, the state rationed at cheap prices 18 kinds of basic daily necessities including grain and cotton cloth, which accounted for 50-60 percent of the total expenditure of the workers and staff. Higher prices were set according to a plan for some of the other consumer goods.

In early 1961, sweets and pastries were sold on the market in the big and medium-sized cities at a high price; in February that year, the scope of supply of high-priced sweets was extended nationwide and the supply of such pastries was extended to all cities and towns — areas inhabited by 130 million people.

In March 1961, restaurants which charged high prices were opened in over 100 cities in the country. Later on, it was also decided that a certain portion of the bicycles, clocks, wrist-watches, wines, tea and knitwear was to be sold at high prices.

Statistics showed that in 1961 and 1962, a total of 7.45 billion yuan worth of high-priced goods was sold, which increased state revenue by 3.85 billion yuan. By so doing, not only were the workers and staff ensured of their supply of basic necessities, but the needs of different people were met and a large amount of currency was recalled, including a portion of the money in the hands of the farmers who had sold their agricultural and sideline products at high prices.

In May 1961, the Party Central Committee drew up "Some Regulations for Improving Commercial Work (draft)," which clearly stipulated that state-owned commercial enterprises, supply and marketing co-ops and rural fairs were the three channels for commodity circulation at that time. To meet the needs of social production and consumers, the supply and marketing co-ops, co-operative stores and groups, which had been abolished or merged into other units since the "great leap forward" year of 1958, should be restored, and rural fairs should be reopened under guidance.

The above-mentioned policies and measures soon showed their effectiveness. Agricultural production and the shortage of supplies on the market began to take a turn for the better. As natural disasters were not so serious in 1961, grain output at the end of the year increased by 2.6 percent over that of the previous year. The disparity between the social purchasing power and the supply of commodities was reduced by 4.8 billion yuan in 1961 as compared with 1960. Although the strained situation between supply and demand had not been fundamentally changed, the minimum needs of the urban residents were basically guaranteed.

However, the readjustment on industrial production and capital construction during this period proceeded rather slowly and no substantial results were achieved.

In 1961, the planned targets for industrial production and capital construction were still too high. Though the scale of capital construction was later reduced, with the investment slashed from 16.7 billion yuan to 12.9 billion yuan and the number of big and medium-sized projects reduced from 900 to 771, it was still beyond the capability of the national economy at that time.

In the first quarter of 1961, the production level of 25 important industrial goods with the exception of sugar, dropped by 30 to 40 percent as compared with the level in the fourth quarter of 1960, and only 10 to 20

percent of the annual planned production quotas were fulfilled, the lowest since 1949. The downward trend in industrial production continued up to July and August. This was particularly so in the output of coal which was essential to the national economy as a whole. The daily coal output at that time was only 440,000 tons, 30 percent less than in the corresponding period of 1960. Large numbers of factories were forced to suspend production due to insufficiency in power supply.

Faced with these harsh facts, the Party Central Committee convened a work conference on Mt. Lushan, Jiangxi Province, in August 1961 to discuss the problems in industrial production. The participants agreed that, viewed from China's economic development and the problems that existed, the tempo of heavy industrial development should have been slowed down in spring 1960. Although the principle of "readjusting, consolidating, filling out and raising standards" had been put forward more than a year ago, no reduction of the planned targets was made in the light of the actual condition.

The conference held that resolute measures should be taken to bring down the targets that should have been lowered and carry out the work of readjusting the national economy in an earnest way. After full discussion, the conference issued on September 15 the "Directive on Current Industrial Problems" which laid down eight regulations regarding readjustment, management and production. The main contents were as follows:

All the industrial departments and enterprises must unswervingly carry out the policy of "readjusting, consolidating, filling out and raising standards" in the next seven years. In the coming three years, emphasis in carrying out this policy must be on readjustment, and determined efforts must be made to reduce the production quotas and the scale of capital construction to a practical and reasonable level.

In industrial management, highly concentrated and unified leadership must be exercised. Taking the country as a whole, in the next two to three years more power over industrial management should be concentrated at the central (including the central bureaus) level, and unified arrangements should be made regarding manpower, material and financial resources. During this period it was required that power which had been excessively delegated to the lower levels should be reverted to the provincial, municipal and autonomous regional levels.

The directive required that for a period of time in the future attention should be paid to both the quantity and quality of coal output, and to variety and quality in the production of rolled steel. As to those enterprises whose products were of low quality and whose production cost was high and enterprises which lacked the material resources and consumed too much raw materials, or had suffered losses for a long time but could not change the situation in the near future, they were all required to close down entirely or partially or suspend production for the time being.

The directive also stipulated that efforts should be made to increase the output of industrial articles for daily use and agricultural means of production so as to stabilize the market. Light industrial and handicraft factories which had shifted to producing the means of production should, within a specified time limit, revert to their former line of production. In addition, the central government required that the various localities and departments should include in their plans the production of 40 kinds of urgently needed light industrial and handicraft products.

The guidelines laid down at this conference not only pointed out the road to end the passive state of affairs in industrial production, but also paved the way for the convening of the enlarged work conference of the Party Central Committee in January 1962 and for mobilizing the whole Party to implement the policy of "readjusting, consolidating, filling out and raising standards" in an all-round way.

Since Mao Zedong issued the call to "energetically encourage the practice of conducting investigations and study" at the Ninth Plenum of the Eighth Party Central Committee, leaders of all trades formulated a series of work rules and regulations to carry out the Party's policy of "readjusting, consolidating, filling out and raising standards" in the light of deep-going investigations and study and on the basis of summing up the positive and negative experiences gained after the "great leap forward" in 1958.

During this period, in addition to the above-mentioned "Rules Governing Work in the Rural People's Communes (draft)," "Regulations on Certain Policies Regarding Handicraft Industry in the Urban and Rural Areas (draft)," and "Some Regulations for Improving Commercial Work (draft)," other documents were drawn up. They included "Fourteen Views Concerning Current Work in the Research Institutes of Natural Science" and the "Provisional Rules for Work in the Institutions of Higher Learning

(draft)" and "Rules Governing Work in State-Owned Industrial Enterprises (draft)" which were adopted at the Lushan conference. The drawing up of these rules and regulations reflected the fact that a general understanding of the Party's policy of "readjusting, consolidating, filling out and raising standards" had been achieved and that concrete measures had been worked out to ensure its implementation.

XIX Decisive Stage of All-round Readjustment

Section I Economic Cutback — A Prerequisite for Readjustment

Following the issuance of the "Directive on Current Industrial Problems" in September 1961, the Party Central Committee convened in mid-January 1962 an enlarged work conference attended by 7,000 people*. At the conference Liu Shaoqi delivered a report on behalf of the Central Committee, initially summing up the basic experiences and lessons in socialist construction since 1958. He said that the cause of the economic difficulties in the past few years was largely due to shortcomings and mistakes in work in addition to crop failures resulting from natural disasters. The report pointed out that the major task for the whole Party at that time was to carry out the readjustment work in a down-to-earth and vigorous way. It also pointed out that 1962 was a crucial year for readjusting the national economy and that no effort should be spared to accomplish this work.

* The conference was attended by more than 7,000 people, including responsible comrades from the various central bureaus, the various central departments, the provincial, municipal and autonomous regional Party committees, the various prefectural and county Party committees, the major factories, mines and enterprises and the various departments of the People's Liberation Army.

To ensure the smooth progress of the readjustment work, the conference stressed the need to oppose the tendency towards decentralization and strengthen centralized and unified leadership. It laid down ten requirements which were mainly as follows: The state plan (including production, capital construction, materials, labour, finance, credit, domestic trade and import and export trade) must be fulfilled in an all-round way, and there should be no change whatsoever without approval from the central government. All capital construction projects and investment must be brought into the orbit of the state plan, and prescribed procedures for examination and approval must be followed. Those key industrial enterprises whose products were to be distributed under a unified state plan should be placed under the direct administration of the central authorities, and enterprises which had been put under the management of the local authorities should be reverted to the central authorities in 1962.

At this conference Mao Zedong stressed the need to strengthen the system of democratic centralism. He urged that past experiences be summed up so as to get a better understanding of the laws governing socialist construction. At the conference he also made a self-criticism for the mistakes in work in the previous few years.

At a meeting on science work held in Guangzhou after the 7,000-people conference, Zhou Enlai pointed out in his "Report on the Question of Intellectuals" that in the previous 12 years the majority of China's intellectuals had undergone a fundamental change and made tremendous progress. The meeting reaffirmed that the overwhelming majority of China's intellectuals belonged to the working people, and it upheld the correct appraisal of the intellectuals made at the 1956 conference on intellectuals and stressed the need to give play to the roles of science and scientists in socialist construction.

The meeting pointed out that doing away with fetishes and superstitions did not in any way mean discarding science. Rather, it meant that while doing away with superstitions, it was necessary to respect science. In accordance with the instructions of the Party Central Committee, efforts were later made to speed up the screening and rehabilitation of the great majority of people who were wrongly criticized or punished in the past few years, especially in the "anti-Rightist deviation" struggle.

In February 1962 the Party Central Committee convened an enlarged

meeting of the Standing Committee of the Political Bureau in Beijing to discuss the 1962 state budget, the overall economic situation and the way to readjust the economy. Countering the "Left" deviationist views of some senior cadres who still blindly maintained that the economic situation was "excellent" and that the economy could be quickly developed on a large scale after some slight readjustments were made, Chen Yun pointed out that the economy was in straits. The major manifestations were: Grain output in 1961 was about 40 million tons less than in 1957; the scale of capital construction exceeded the state's financial and material capabilities; an excess amount of currency was issued, which gave rise to inflation; speculation was rife; and the living standard of the people in the cities was falling.

Chen Yun put forward six measures for overcoming the difficulties. The first was to divide the plan for the next ten years into two stages, with restoration as the major task in the first stage, which would take about five years, and development in the second stage. The second measure was to reduce the urban population and streamline the administrative structure. Third, every effort was to be made to check inflation. Fourth, steps must be taken to ensure the minimum living standards of the urban people. Fifth, all available resources should be tapped to increase agricultural production, and sixth, the planning institutions should shift their main attention from industry and communications to boosting agricultural production and checking inflation.

Acting on these guidelines, the central financial and economic group further readjusted the 1962 national economic plan.

The targets originally set in the draft plan for 1962 were: total industrial and agricultural output value, 140 billion yuan; total agricultural output value, 45 billion yuan; total industrial output value, 95 billion yuan; coal, 251 million tons; steel, 7.5 million tons; grain, 149.3 million-150.2 million tons; and cotton, 1.017 million-1.0245 million tons. The readjusted targets were: total industrial and agricultural output value, 130 billion yuan; total agricultural output value, 42 billion yuan; total industrial output value, 88 billion yuan; coal, 239 million tons; steel, 6 million tons; grain, 144.5 million tons; and cotton, 1.0315 million tons. All targets, except for cotton output which was slightly increased, were lowered to some extent. Total investment in capital construction in the state budget was also reduced from 6.07 billion yuan to 4.6 billion yuan, a decrease of 24 percent. Most of the above targets were met by the end of the year.

The work conference convened by the Party Central Committee in May 1962 discussed and approved the central financial and economic group's "Report on Discussions About the 1962 Readjustment Plan." Both the enlarged meeting of the Standing Committee of the Political Bureau and the work conference analysed the financial and economic situation and laid down the principles and measures for bringing about a fundamental improvement of the financial and economic situation. The basic guideline was that resolute steps must be taken to effect adequate cutbacks before any advance could be made. The conference called for conscientious efforts to achieve a comprehensive balance in the national economy in the order of agriculture, light industry and heavy industry.

To this end, the conference adopted a series of resolute measures for economic readjustment. These included reducing the scale of industrial production and construction, slashing the number of workers and staff members and urban population, strengthening agricultural work, increasing the production of agriculture and the manufacture of goods for daily use, guaranteeing market supplies and checking inflation.

Having achieved greater unity in thinking throughout the Party, the central authorities were more determined than ever to make an overall readjustment of the national economy. Clearly defined tasks were set forth and more resolute measures to ensure their success were adopted. As a result, such phenomena as hesitation, wait-and-see attitude and refusal to implement the Party's policies, which were prevalent among some cadres, decreased considerably. This improvement promoted the implementation of the principle of "readjustment, consolidating, filling out and raising standards" in a deep-going and all-round way.

Section II Measures for Further Readjustment

In order to lower the targets wherever necessary so as to quickly overcome the difficulties in the national economy, beginning from September 1961 the Party Central Committee adopted a number of resolute measures on the basis of what had already been achieved. These measures were roughly as follows:

(1) Reducing the scale of capital construction.

Total investment in capital construction in 1961 was 12.33 billion yuan,

down by 67.9 percent from the 1960 figure of 38.4 billion yuan; in 1962 it was further reduced by 45.2 percent. Of this amount, state investment dropped from 8.98 billion yuan to 5.66 billion yuan, a decrease of 37 percent. This was the first time since 1953 that capital construction was undertaken on such a small scale.

Efforts were also made to reduce capital construction investment outside the state budget and limit the number of construction projects outside the state plan. In the years of the "great leap forward," because certain powers were delegated to the departments or enterprises at the lower levels, investment outside the state budget was increased year after year. In 1960 it soared to 8.7 billion yuan, accounting for 22.6 percent of the total investment. Though it was reduced several times in 1961, it still reached 3.4 billion yuan, making up 27.2 percent of the total investment. The number of large and medium-sized projects outside the state plan accounted for 20 percent of all projects of the same size undertaken that year. Construction of large buildings and halls actually had not stopped.

In view of this situation, the central authorities decided in early 1962 to take back that portion of financial power which had been excessively delegated to the departments or enterprises at the lower levels. Capital construction units must produce certificates signed by the banks when they wanted to place orders for goods, and bank loans could not be used in capital construction; the building of large and medium-sized construction projects must have the approval of the central authorities, local small projects should have the approval of the central bureaus, and small projects directly undertaken by the various ministries should have the approval of the State Planning Commission. The construction of projects outside the state plan, especially large buildings and halls, should all be stopped without exception no matter how far the construction had progressed. In this way investment outside the state budget had been reduced to 1.1 billion yuan by 1962, accounting for 16.3 percent of the total investment, and the number of projects outside the state plan had basically been put under control.

In 1962 there were 25,000 projects under construction throughout the country, including 1,003 large and medium-sized ones. Compared with 1961 the number of projects under construction had been reduced by 10,000, including 406 large and medium-sized ones.

With regard to projects whose construction was to be continued, the

first thing to do was to make reasonable readjustments in the orientation of investment. It was decided that more investments should be made in agriculture, industries for aiding agriculture and meeting the needs of the market and export (such as artificial fibre, synthetic fatty acid, farm machinery, insecticides and chemical fertilizers), the raw materials and fuel industries, as well as other auxiliary projects which were urgently needed in industry and communications.

Secondly, the scale of projects whose construction was being continued should be reduced wherever possible, depending on the circumstances. With regard to those projects which were being built according to plan, if they had difficulties in getting raw materials and power supply or if normal production could not be ensured after they were put into operation, the pace of construction should be slowed down. Overlapping projects, workshops and sections should be amalgamated. Financial and material resources should be concentrated to ensure the construction and production of a number of key projects according to plan.

With the adoption of the above-mentioned measures, the utilization rate of the fixed assets added in 1961 increased from 68.8 percent in 1960 to 74.5 percent, and it further increased to 79 percent in 1962.

(2) Drastically reducing the speed of growth of industrial production and improving the internal structure of industry.

The planned targets set for 1962 by the central financial and economic group in May 1962 were much lower than the actual results of 1960. For instance, total industrial output value was reduced by 47 percent, total heavy industrial output value was slashed by 57 percent, and steel output was cut by 68 percent. The output of coal, timber and electricity which were in short supply decreased by a big margin because of the disproportionate development between mining and tunnelling and between felling and cultivation. The only exception was crude oil whose output rose slightly. Total light industrial output value dropped by 26 percent. This was mainly due to serious cash crop failures, and the output of cotton yarn, cotton cloth, cigarettes, sugar and other light industrial products plummeted.

With the sharp drop in industrial production, most industrial enterprises operated under capacity, and most of the workers and equipment remained idle. Calculated according to the 1962 readjusted plan, less than half of the 10 million spindles in the cotton spinning industry were being

operated, while the sugar refineries, cigarette and tinned food factories operated at only 20-35 percent of their capacity. The demand of the iron and steel, machinery and building materials industries for raw materials and equipment dropped considerably because of the drastic curtailment of the scale of capital construction. The production quotas of many enterprises were slashed, and some were not assigned any task at all. In view of this situation, the central authorities decided that some of the industrial enterprises had to close down or suspend production, some had to merge with others and some had to switch to other lines of production.

The main principles guiding the work of readjustment were: For those enterprises whose rates of consumption and cost were low, whose products were of good quality and whose labour productivity was high, they were given priority in the assignment of production tasks and they were guaranteed supplies of raw and semi-finished materials, fuel and power. As for those enterprises whose rates of consumption and cost were high, whose products were of poor quality and whose labour productivity was low, they were to close down if they failed to make profits after being overhauled.

As regards those enterprises which could not for some time get an adequate supply of raw materials, fuel and power and which were assigned only a little amount of task, they should be merged with others or reduce their scale. Enterprises whose products were urgently needed in industrial and agricultural production, on the market or in national defence should, in principle, be retained and strengthened. Those enterprises which originally produced light industrial goods but had switched to producing capital goods during the years of the "great leap forward" and those factories formerly engaged in machinery repair work or in producing spare parts should all resume their original line of production within a specified time.

As for those enterprises which were operating under capacity but could be switched to producing products in short supply, they should change their orientation in production in accordance with actual needs.

Urban and rural people's communes should, in principle, not run industrial enterprises. Some of the industrial enterprises which had already been set up should be changed into handicraft co-operatives, some should be changed into individually owned enterprises or workshops for family sideline occupations; the few enterprises which had normal production conditions and whose products were in urgent need and of good quality

could gradually be placed under the direct leadership of local industrial departments. All other enterprises should be closed down.

Those enterprises which were originally owned by the collectives but had been switched to ownership by the whole people during the "great leap forward" could revert to collective ownership and continue their production if the state considered it necessary to do so and if these enterprises were successfully operated.

As regards the personnel in those enterprises which were closed down or suspended production, proper arrangements were made for them. An inventory of the materials, equipment, technological data and other archives of these enterprises was made before putting them under special care. A system for work was formulated and normal work order was established within these enterprises after they were closed down or suspended production.

Statistics showed that in the first ten months of 1962 the number of industrial enterprises at or above the county level was cut by 19,000 throughout the country; this plus those reduced in 1961 brought the total to 44,000, which was equivalent to 45 percent of the total number of industrial enterprises at the end of 1960. In most localities the number of enterprises and their workers and staff members that were retained was equal to the level of 1957.

The readjustment of industrial enterprises was not only for the purpose of solving the question of temporary insufficient production tasks and a surplus in personnel and equipment; it was actually a major readjustment of the internal structure of industry.

According to statistics, enterprises which were reduced or amalgamated in great numbers were those in the metallurgical, chemical, building materials and machine-building industries, and their numbers were cut by 70.5 percent, 42.2 percent, 50.7 percent and 31.6 percent respectively. The production capacity of 17 overstocked products underwent big readjustment; they included iron and steel, cement, and heavy-duty equipment, power-station equipment, motor vehicles, machine tools, and electric motors in the machine-building industry. Their combined production capacity was cut by about 50 percent.

On the other hand, the production capacity of 14 products in great demand, including coal, petroleum, soda ash, chemical fertilizers, polyvinyl

chloride (PVC), enamelware, bicycles and synthetic detergents, as well as tractors, internal-combustion engines and transport vehicles increased or remained unchanged.

Take the machine-building industry for example. During the readjustment, the production orientation of more than 500 enterprises was changed. Of which 110 enterprises (employing about 30,000 workers and staff members and having 5,500 machine tools) switched to producing farm machinery; other enterprises were reorganized to produce nitrogenous fertilizers equipment, engineering machinery, precision machine tools, instruments, meters and other products in short supply. Meanwhile, arrangements were made for some enterprises to specialize in repairing equipment, thereby strengthening maintenance work and increasing the production capacity of fittings and spare parts. While industrial enterprises were being readjusted, conscientious efforts were made to improve their management. In those enterprises which continued production as before, the masses were mobilized to expose contradictions so as to overcome them and gradually strengthen enterprise operation and management; responsibility systems in production, administration and technical matters were also established at all levels and gradually perfected. The economic accounting system was strengthened, thus achieving marked improvement in economic results.

The varieties of rolled steel, machines and equipment added in 1961 and 1962 increased by 8 percent and 18.7 percent respectively over 1960. The petroleum industry was able to produce 178 kinds of products, accounting for 96.7 percent of the varieties commonly used in industry, agriculture, communications and transport. With regard to pig iron produced in the key iron and steel works, the rate of up-to-standard iron increased from 86.6 percent in 1960 to 98 percent in 1962.

(3) Considerably reducing the number of employees and urban population.

At a work conference convened by the Party Central Committee in May 1961, it was stipulated that urban population which stood at 130 million at the end of 1960 was to be reduced by more than 20 million in three years and that at least 10 million were to be reduced in 1961. Again in May 1962, the Party Central Committee decided that on the basis of the number of employees in government organizations and urban population at the end of

1961, the number of workers and staff members should be cut by more than 10 million and urban population was to be reduced by 20 million in 1962 and 1963.

To carry out such a large reduction this time was more difficult than in 1961. The major measures taken to achieve this were as follows:

(A) Unifying the thinking of the whole Party and the people of the whole country.

For this purpose, the Party Central Committee drafted a programme for publicity. In the light of the actual situation, leaders at all levels earnestly explained to the Party members and the people the difficulties in the national economy, made self-criticisms of the mistakes in work, accepted the people's criticisms and at the same time called on them to share the burden with the state.

(B) Formulating clear-cut and concrete policies for handling such questions as: which workers were to be laid off, their treatment, residence and grain ration.

With regard to the treatment and grain ration of those who were laid off, all possible measures were taken to guarantee their livelihood within a period of time even when China was faced with extreme economic difficulties. As to the old, the weak and disabled who were no longer able to work, their basic daily needs were guaranteed. Overseas Chinese and their family members, people of Taiwan origin and patriotic personages were not among those to be laid off.

(C) Making proper arrangements for those discharged.

Except for a small number of people who were to remain in cities and towns to engage in household chores or work in collectively owned enterprises, the others were mainly assigned to work in their native villages or production brigades. If their own native villages or production brigades were in disaster-stricken areas or if the number of people returning to their home villages was too many, they should be assigned to work in other villages or production brigades. Diverse methods were taken at that time to handle this question. In some places the cadres led a group of workers to settle down in communes which lacked manpower, and in some places the workers and staff members were assigned to work in production teams where the conditions were quite good. Those who had no home to return to and could not get work in the cities and youths who were unable to go to

school or were waiting for jobs were generally assigned to work on the state farms.

Thanks to the determination and correct policies of the central authorities, the tasks set for reducing the number of workers and staff and urban population were basically fulfilled by June 1963. Beginning in January 1961, 19.40 million workers and staff members were reduced in two and a half years. During the same period, urban population was reduced by 26 million.

(4) Further improving the financial and banking management system and maintaining a balance in finance, credit, market and foreign exchange.

In March 1962, the Party Central Committee adopted a decision on conscientiously strengthening the work in banking calling for a highly centralized and unified management of the banks and a tight control over the state's currency. The decision stipulated that, within a given period of time, stricter and tighter control should be effected over currency than in the period shortly after the founding of the People's Republic when financial and economic work was placed under unified control. To achieve this, the Party Central Committee laid down the following concrete stipulations: Taking back all the powers over banking delegated to the lower levels in the previous few years; exercising strict control over credit, working out plans for extending credits and forbidding all localities, departments and enterprises to order the banks to increase loans outside the state plan; drawing a clear demarcation line between bank loans and financial funds and forbidding the use of bank loans as financial expenditures for capital construction, for defraying enterprise losses, for paying wages and profits, and for welfare funds and so forth; strengthening cash control and enforcing strict discipline on settling accounts, prohibiting the use of cash to buy commodities in short supply, etc.

In April 1962 the Party Central Committee made the "Decision on Exercising Strict Control Over Financial Affairs." The decision called, first of all, for an end to the situation in which the enterprises suffered great losses. It stipulated that except for those enterprises which might suffer losses with government approval, all other enterprises must be profitable concerns. Those enterprises which temporarily suffered losses must become profitable within a specified time, otherwise they should immediately stop production or close down. The decision also stipulated that the malpractices

of misappropriating state funds must be stopped, and reiterated the 10 prohibitions* in this regard. At the same time, it called for the firm safeguarding of financial income which should be turned over to the state, the strict control over various kinds of expenditures and the effective strengthening of financial supervision.

The work of making an inventory of warehouses, clearing up overdue payments for goods and turning losses into profits, which was carried out in 1962, also played an important role in effectively and reasonably using state funds and achieving a balance between revenue and expenditure.

Since 1958 the amount of circulating funds taken up by state-owned industrial, commercial and communications enterprises had doubled or multiplied mainly because of the excessive stockpiling of goods. According to incomplete statistics, from February 1962 when the work of making an inventory of warehouses started to the end of September 1963, materials found to be exceeding the reasonable amount of reserves were valued at 17.3 billion yuan, of which 90 percent had been allocated by the state for use in production and construction and for meeting the needs for people's livelihood.

The circulating funds of the enterprises were checked on the basis of the inventory made at that time. The total amount of circulating funds in the hands of industrial enterprises in 1962 dropped by more than 6 billion yuan as compared with 1960.

With regard to the work of turning losses into profits, although many enterprises were operating under capacity at that time, they succeeded in making some improvement in their operation and management. Thanks to these efforts, the amount of losses suffered by enterprises throughout the country had dropped from 10.5 billion yuan in 1961 to 9.3 billion yuan by the end of 1962, a decrease of 11.5 percent.

* The 10 prohibitions were: (1) to misappropriate profits and taxes to be handed over to the state; (2) to misappropriate bank loans; (3) to misappropriate payments for goods which should be returned to other units; (4) to arbitrarily cut the cost of production; (5) to misappropriate the fixed amount of circulating funds of enterprises; (6) to misappropriate income from fixed assets sold at the current price; (7) to misappropriate depreciation-funds and overhauling funds; (8) to arbitrarily raise the proportion of money drawn from the various kinds of special funds of the enterprises; (9) to misappropriate the enterprises' funds for upgrading equipment and technological transformation, and (10) to misappropriate the funds for reserve materials and equipment of capital construction units.

There was still an acute shortage in the supply of grain and cotton cloth at that time. In making proper arrangements for the livelihood of the urban and rural people, it was decided in September 1961 to reduce the amount of grain to be delivered by the farmers or purchased by the state, appropriately reduce the amount of grain for sale in the cities and at the same time import a certain amount of grain to make up for the insufficient supply at home. Furthermore, besides reducing urban population and economizing on the industrial use of grain, the grain rations of urban residents were also appropriately reduced. These measures resulted in the increase of grain rations for the people in the rural areas, thereby raising the nation's per-capita grain consumption by 3.5 percent in 1962 and easing the country's shortage of grain supply.

Because of serious cotton crop failures in the previous few years, the production of cotton cloth dropped by a big margin. To remedy the situation, the export of cotton and industrial use of cotton and cotton cloth were appropriately reduced and a certain amount of cotton cloth in stock was put on sale. In this way, per-capita consumption of cotton cloth in 1962 increased by almost one metre over the preceding year. At the same time, active efforts were made to increase the supply of woollen fabrics, staple rayon, knitting wool, plastic shoes and other commodities.

With regard to manufactured goods for daily use and handicrafts, many of the commodities which were formerly in short supply, such as iron pans, aluminium products, enamelware, synthetic detergents, electric bulbs, thermos flasks, cooking utensils, small articles in daily use and hardware basically met the needs of the people in 1962.

Meanwhile, the methods of commodity supply were also improved. Priority was given to the rural areas in the supply of those means of production and means of livelihood badly needed in the countryside. The basic daily necessities needed by city dwellers and people in the industrial and mining areas were rationed at low prices. In the supply of daily necessities, consideration was given to those working under high temperatures, in severe cold weather, on high altitudes and under other special conditions as well as to the patients, pregnant women, children, and senior intellectuals, medium-and high-ranking cadres. Beginning from 1962 coupons were issued in 130 big and medium-sized cities throughout the country for the purchase of some commodities which were still in short supply.

Since the winter of 1960 village fair trade was restored and commercial co-operatives were re-established in the cities and countryside. A number of farmer fairs also emerged in the big and medium-sized cities. All this was indispensable to stimulating the circulation of commodities, speeding up the restoration and development of industrial and agricultural production and meeting the needs of urban and rural people.

According to statistics from 14 big and medium-sized cities including Shanghai, Tianjin and Wuhan, the business volume of the village fairs in 1962, calculated according to listed prices in state-owned enterprises, accounted on an average for 2 percent of the total retail sales of commodities in the same period.

Efforts were made to maintain a balance between revenue and expenditure in foreign exchange and doing a good job in foreign trade. As early as February 1961, the Party Central Committee decided that in foreign trade work, the principle of "putting the task of feeding the people above construction" must be upheld. The export of major farm products was greatly reduced and the export of commodities processed with imported materials was increased considerably. At the same time the import of grain, chemical fertilizers and some raw and semi-finished materials which were in short supply was also increased.

But owing to the limited amount of exports, the great need for more imports, the dunning of debts by the Soviet Union and the decrease of remittances from overseas, it was difficult to maintain a balance between revenue and expenditure in foreign exchange. This being the case, the country therefore had to export some farm and sideline products and light industrial goods. Although the proportion of exports of farm and sideline products in the total volume of exports in 1961 and 1962 dropped by 51.7 percent and 54.8 percent respectively as compared with 1957, the export of light industrial goods and textiles was maintained at a level 40 percent higher than that of 1957. In the most difficult year of 1961, large quantities of pork, aquatic products, tinned foods, cotton and cotton cloth were exported in order to pay off the Soviet debts.

On the other hand, great efforts were made to use the foreign exchange rationally. The order of importance and urgency for imports was decided as follows: First, food; second, chemical fertilizers, insecticides and fat; third, commodities which could be exported after processing in order to earn

foreign exchange and chemical raw materials; fourth, industrial raw and semi-finished materials (mainly copper, aluminium, rolled steel, rubber and petroleum) and sophisticated technology as well as materials and equipment needed for national defence. As a result of all these efforts, there was a favourable balance of revenue and expenditure in foreign exchange for several years running. In addition to paying off the Soviet debts on schedule, 10.75 million tons of grain, 2.37 million tons of chemical fertilizers, 2.18 million tons of sugar, 200,000 tons of rubber and 300,000 tons of rolled steel were imported in 1961 and 1962.

(5) Further readjusting the rural policies

As early as September 1961 Mao Zedong raised the question: Which level should be taken as the basic accounting unit of the people's commune? He maintained that the original decision of taking the production brigade as the basic accounting unit, with the production team exercising the power over production and the production brigade the power over distribution, was not conducive to stimulating the enthusiasm of the farmers for production. He suggested that the production team should be taken as the basic accounting unit.

In February 1962, the Party Central Committee summed up the opinions raised by the various local authorities and, after detailed discussions, decided that the production team* (equivalent to the former agricultural co-operative of the elementary type) should generally be taken as the basic accounting unit, and the three-level collective ownership based on the production team should remain unchanged for at least 30 years. The experience gained in the experimental units proved that taking the production team as the basic accounting unit was, comparatively speaking, best suited to the level of development of the productive forces, the political consciousness of the farmers and the managerial ability of the cadres in the rural areas at that time.

Switching the three-level ownership of the rural people's commune back to taking the production team as the basis was a change of crucial importance and a major step in further readjusting the relations of

* The three-level ownership mentioned here was in fact smaller in scale than that defined at the second Zhengzhou Meeting in 1959. At that time the scale of a production team was equal to that of the former advanced co-operative; it was only sometime later that its scale was reduced to that of a former agricultural co-operative of the elementary type.

production in the rural areas. The Party Central Committee laid down the following concrete stipulations: (1) Generally it was preferable for a production team to have 20-30 households, and the size of a production brigade should be equivalent to that of the former advanced agricultural co-operative; (2) the land, draught animals and farm tools originally designated for use by the production team should generally not be changed again, and in principle their ownership belonged to the production team; (3) the woods and scattered trees on the land of the production team in principle belonged to the production team; the large tracts of forests which originally belonged to the production brigade might still belong to the production brigade or they might be shifted to the ownership of the production team according to the actual needs; (4) with regard to the use and management of water conservancy facilities, the stipulations already in force should be followed and should generally not be changed again; (5) when changing the basic accounting unit, detailed accounts of the debts of the production team and production brigade should be made; they should be settled and not annulled at will.

In the "Rules Governing Work in the Rural People's Communes (revised draft)" adopted at the Tenth Plenary Session of the Eighth Party Central Committee in September 1962, the above-mentioned policies were formally laid down. It was also stipulated that for several years ahead, the communes and production brigades generally should not draw accumulation funds and public welfare funds from the production teams. Organizations at various levels of the communes, especially the production teams, must constantly improve their operation and management and establish a strict responsibility system in production, and the principle of running the communes, production brigades and production teams democratically should be upheld.

On the basis of the discussions at the Tenth Plenary Session of the Eighth Party Central Committee, in November 1962 the Party Central Committee issued the "Decision on Developing Rural Sideline Occupations." To speed up the restoration and development of sideline production, it called for active efforts to encourage and help the development of household sideline occupations in the rural areas. Through such economic means as making the production teams and commune members process goods for the state and accept state orders, with the state

supplying the raw materials and purchasing their products at negotiated prices, the commercial departments encouraged them to sell their products to the state. The banks and credit co-operatives extended short-term loans to support those production teams which were short of funds to develop sideline production, and the taxation departments reasonably set the starting point for taxation and the tax rates for various kinds of sideline products.

Section III A Turning Point in the Economic Situation

As mentioned above, since September 1961 and especially since the 7,000-people meeting in 1962, the central authorities gradually came to a better understanding of the economic difficulties at that time and determined to effect a firm economic cutback and adopt a series of resolute measures. Remarkable results were achieved in the economic readjustment work at that stage. The national economy as a whole took a decisive turn for the better and production began to pick up after a period of decline. Major indications were:

First, restoration of agricultural production forces and production level. In 1962 labour power and farm tools in the countryside had been restored to the 1957 level and in some places had even surpassed it. The number of draught animals had also begun to increase, and arable land had increased by 400,000 hectares (mainly land returned to the communes after the building of some capital construction projects had either been stopped or postponed). Compared with 1960, there was a marked increase in the supply of chemical fertilizers, tractors, and drainage and irrigation machinery. Grain output topped 160 million tons, or 12.5 million tons more than in the previous year; the output of oil-bearing crops increased by 13.8 percent; the number of pigs was approximately 100 million at the year-end, or 24 million head more than in the previous year. Agricultural production had been restored in one-fourth of the nation's counties, reaching or surpassing the 1957 level.

Second, improvement in the proportionate development between agriculture and industry and between light and heavy industries. Total agricultural output value in 1962 was 43 billion yuan, a 6.2 percent increase over the previous year. Total industrial output value amounted to 85 billion

yuan, down by 16.6 percent from 1961. The ratio between industrial and agricultural output value had changed from 4:1 in 1960 to 2:1 in 1962. In industrial production, heavy industrial output value amounted to 45.5 billion yuan, a drop of 22.6 percent from the previous year, while light industrial output value was 39.5 billion yuan, down by 8.4 percent from the previous year. This changed the ratio between light and heavy industrial output value from 42.5:57.5 in 1961 to 47.2:52.8 in 1962.

Third, achieving a balance between revenue and expenditure with a little surplus and a decrease in the amount of currency in circulation together with a gradual drop in market prices. In 1962 revenue reached 31.36 billion yuan while expenditure totalled 30.53 billion yuan, thus leaving a surplus of 830 million yuan. While the total retail sales of commodities in 1962 basically remained the same as in the previous year, the amount of currency in circulation at the year-end decreased by 15 percent. There was still a shortage of goods on the market that year, but with the improvement of the economic situation as a whole, prices at the fairs throughout the country dropped by 35 percent as compared with the previous year.

Fourth, a slight improvement in the livelihood of the people in the cities and countryside. Generally speaking, the people's living standards in 1962 were still low. As for the average per-capita consumption level in 1962, grain consumption was only 81 percent, pork 43 percent and cotton cloth 53 percent of the 1957 level. But compared with 1961, per-capita consumption of grain increased by 5.5 kg, pork increased by 0.8 kg and cotton cloth increased by nearly one metre.

XX Three Years of Readjustment

Section I Policy Decision for the Continuation of Readjustment

From 1963 there began another three years of continued readjustment of the national economy.

The Tenth Plenary Session of the Eighth Party Central Committee held in September 1962 discussed and adopted three important documents,

namely, "Decisions on Further Consolidating the Collective Economy of the People's Communes and Developing Agricultural Production," "Rules Governing Work in the Rural People's Communes (revised draft)" and "Decisions on Commercial Work." The session pointed out clearly that the urgent task facing the people of the whole country was to carry out the general policy of taking agriculture as the foundation and industry as the leading factor in developing the national economy and to make determined efforts to shift the focus of work of industrial departments on to serving agriculture which was the foundation of the national economy.

In his speech on classes, the situation, contradictions and inner-Party unity at the session, Mao Zedong stated in absolute terms and enlarged the scope of class struggle which existed to certain extents in a socialist society. He held that throughout the historical period of socialism, the capitalist class would exist and there was the danger of a capitalist comeback.

At the session, various forms of responsibility system in agricultural production were criticised, such as contracting major farm work to production groups, minor miscellaneous work to individuals and farmland management to households. The re-examination and redressing of unjust, false and wrong cases were also criticised as mistakes in work. Paradoxically, Mao Zedong also said that top priority should be given to the task of economic readjustment and that this central economic work should not be interfered by class struggle.

The implementation of the correct principle of continuing the work of readjustment enabled the entire national economy to take a turn for the better in 1963. In the first few months of that year, industrial production went up steadily. The initial restoration of agricultural production brought about a remarkable improvement in market supply, characterized by a steady increase in the supply of pork, poultry, eggs, vegetables and other non-staple food and articles for daily use. Some commodities which were rationed and had to be bought with coupons were available either with fewer coupons or without coupons. Prices continued to drop at the farmer fairs, a balance of financial revenue and expenditure was achieved, and the amount of currency in circulation was further reduced.

Now that the national economy had improved, there emerged two differing views: Should the economy be further readjusted in the light of the actual conditions, or should the targets be raised once again?

In December 1962 the Party Central Committee proposed that a ten-

year plan (1963-72) for the national economy be drawn up. Immediately after this, the central and local departments concerned set about this task. It was at this time that class struggle steadily gained momentum.

In March 1963 the Party Central Committee issued the call to launch a new "anti-five evils" movement, namely, against corruption and embezzlement, speculation, extravagance and waste, decentralism and bureaucracy in government organizations and enterprises at and above the county level. In May and September 1963, the Party Central Committee adopted and issued documents for carrying out a socialist education movement in the rural areas (also known as the "four clean-ups" movement, i.e., to clean things up in the fields of politics, ideology, organization and economy). It was held that class struggle in the society had become serious and acute and a large-scale mass movement must be launched to beat back the ferocious attacks of the capitalist and feudal forces. With such an assumption getting the upper hand, "Leftist" ideas cropped up again, which doubted whether the national economy should continue to take readjustment as its guiding principle.

At a working conference held in September 1963, the Party Central Committee made a thorough analysis of the national economy and maintained that the situation in 1963 was developing favourably and that an all-round turn for the better had taken place. However, there were still quite a few problems.

For example, agricultural production had not yet been restored to the level of 1957, and the country had to continue importing grain from abroad for several more years. In particular, big efforts had to be made to restore the production of cash crops, forestry and animal husbandry. Also, the problem of clothing the people remained to be solved. In addition, much work had to be done to upgrade the entire industry, the basic industries in particular, transportation and communications, increase the variety and improve the quality of products, maintain and renovate the equipment, and turn out complete sets of equipment. The management of many enterprises needed to be further improved. Moreover, there were many enterprises which were losing money and needed to be overhauled. At that time China still owed the Soviet Union 160 million roubles which could not be paid off until 1965. Thus only after 1965 could the nation have enough foreign exchange to import sophisticated equipment and technology for its economic construction. Proceeding from this analysis, the conference decided that

beginning from 1963 the work of readjustment, consolidating, filling out and raising standards in developing the national economy should be continued for another three years so as to pave the way for later development.

During this period of transition, the major goals of economic work were: Agricultural production should reach or surpass the 1957 level. Industrial production should increase by about 50 percent on the basis of 1957. The relationship between the various sectors of the national economy—between industry and agriculture, within industry and agriculture themselves, and between consumption and accumulation—should, by and large, be proportionate. Industrial departments, in particular, should do a good job in upgrading their equipment and in improving their co-operation along specialized lines. The management of various economic sectors should return to normal.

The basic principles for economic work during this period were (1) taking agriculture as the foundation and industry as the leading factor; (2) taking proper measures to ensure the supply of food, clothing and daily necessities while strengthening the basic industries and giving due consideration to national defence and scientific research; (3) continuing the work of readjusting, consolidating, filling out and raising standards; and (4) building the country through diligence, frugality and self-reliance.

The conference put forward the idea of developing the national economy in two steps, later concretized by Zhou Enlai in his speech at the First Session of the Third National People's Congress in December 1964. The first step was to build an independent and relatively complete industrial system and national economic system in three Five-Year-Plan periods. The second step was to strive in a relatively short historical period for the realization of the four modernizations (i.e., modernization of industry, agriculture, national defence, science and technology), so that China's economy would take its place among the foremost countries in the world.

Section II Characteristics of the Work of Readjustment In the New Situation

The three-year readjustment beginning in 1963 was carried out in a new situation in which the national economy was taking an all-round turn for the

better, and the "anti-five evils" and "four clean-ups" movements and the movement "against revisionism" and "preparations against war" had got under way. The work of readjustment, therefore, had many new characteristics.

(1) The task of readjustment was still arduous.

Beginning in 1963, although there was no need for continued large-scale readjustment of the national economy, the people still had difficulty in their livelihood, the peasants needed more time to rehabilitate, and the workers and staff members needed a pay raise. The relationship between accumulation and consumption also called for further improvement. At the same time, the output of many products in short supply must be increased in order to meet the demand on the market, and many weak departments and links in the national economy must be strengthened. At that time, there was a serious shortage in the supply of such important materials as rolled steel and coal; much of the damaged equipment had to be repaired, and the unfulfilled quotas in the mining industry could not be met in one or two years.

In April 1963 the central authorities earmarked 900 million yuan for increasing the pay of 40 percent of the workers and staff members, raising the wage grades in some areas, readjusting the wage standards of those workers whose wages were too low, expanding the scope of piecework wages, and improving the system of bonuses and subsidies.

Beginning in the second half of 1961, the mining industry took advantage of the slowdown in the processing industry and concentrated its efforts on tunnelling and extracting to make up past deficiency in output. By 1965, with the exception of non-metallic mines, all mines including coal, ferrous, non-ferrous, auxiliary materials, chemical as well as building materials mines had developed to such a point that tunnelling and extracting were carried out in a proportionate way, and preparations for mining and the amount to be extracted had basically met the planned requirements.

After ordinary equipment had basically been repaired, efforts were concentrated on the repair and maintenance of large precision equipment, imported equipment and the supply of key components. By the end of 1964, about 80 percent of the equipment in the ferrous and non-ferrous mines and 85 to 90 percent of the ordinary equipment were in good condition. In 1965 about 86.2 percent of the heavy-duty trucks were in good order.

In 1963 efforts were made to renovate, step by step and in a planned

way, the equipment of factories in the old industrial bases which had become non-productive or unsafe to the workers and to revamp the key equipment so as to improve the quality of products. Efforts were also made to produce or purchase instruments needed in experiments, checking and meteorology work. After 1963, those enterprises and industrial bases hastily built during the "great leap forward" period were readjusted in a planned way, with the stress on making complete sets of equipment and auxiliary facilities for the water conservancy works and basic industries.

In addition, due attention was paid to solving the question of housing for workers and staff members and the incompatibility of cultural, educational and health facilities with the needs of the development of construction. Investment in non-productive projects from 1963 to 1965 had increased from 13.2 percent in the Second Five-Year Plan (1958-62) period to 17 percent of the total amount of investments.

(2) The task of consolidating, filling out and raising standards became more prominent than before.

In October 1962, when the work of making an inventory of the warehouses and clearing up arrears of tax payment basically came to an end and the capital turnover of enterprises was restored to normal, the Party Central Committee and the State Council issued the "Circular on Resolutely Putting an End to Losses and Increasing Profits" which required that industrial and commercial enterprises throughout the country should further reduce their losses by 3 to 4 billion yuan in 1963, the total loss in 1962 being 9.3 billion yuan.

Thanks to the efforts made by the enterprises in improving their management, the comparable costs in industrial production had by the end of 1963 dropped by 9.5 percent as compared with 1962 and total losses were reduced by more than 50 percent. The coal industry, which was deep in the red, reduced its loss by about 25 percent. By 1965, the total amount of industrial losses was reduced to 490 million yuan, and losses resulting from poor management had basically been eliminated. Meanwhile profits from industry steadily increased year after year. In 1965 the rate of profits and taxes was 39.8 percent of the industrial output value. The amount of losses incurred by commercial enterprises in 1963 also dropped by one-third as compared with the previous year. And in the case of such commodities as pigs, poultry, eggs and vegetables which had long been sold at a loss, their losses were reduced by 89 percent as compared with 1962.

In order to raise the level of industry as a whole and build new industrial enterprises which China lacked, the departments concerned obtained approval to import 20 complete sets of equipment (which later was reduced to 14) in the two years 1962 and 1963, in addition to importing the most advanced petrochemical technology from the capitalist countries. In 1963 and 1964, the nation sent out delegations to investigate, negotiate and, if possible, sign agreements with foreign countries on more than 100 projects for the metallurgical, precision machinery and electronics industries.

During this period an initial foundation was laid for the chemical fertilizer, chemical fibre, plastic, detergent, electronic and other new industries. The construction of the Daqing Oilfield began in May 1960. More than 40,000 people were mobilized from the oilfields and factories, universities and colleges throughout the country to do the work. They brought with them more than 70,000 tons of equipment and instruments and after three years of hard work succeeded in opening up the oilfield. In July 1961, the most difficult time in our national economy, the Party Central Committee decided to develop the atomic energy industry by relying on our own efforts and make a breakthrough in this most advanced field of technology. After several years of hard work in which several thousand technical problems were solved, a thousand or so experiments were conducted and more than 20,000 pieces of key equipment were manufactured, our country finally succeeded in exploding its first atomic bomb in 1964.

(3) Steps were taken to reform the economic setup on a trial basis.

While the national economy was in the process of gradual restoration and development, certain necessary reforms in the economic system were carried out on a trial basis. These reforms centred on the management system of enterprises, the labour system and the system of pricing. Necessary readjustments were also made in the relations between the central and local authorities.

Industry. In order to change the old practice of using administrative measures to manage enterprises, the central authorities decided in March 1963 to establish trusts on a trial basis. A national tobacco corporation was the first to be established. In August 1964, the central authorities decided to set up 11 others, namely, a salt corporation, an East China coal industrial corporation, a motor vehicles industrial corporation, a tractor and internal

combustion engine components corporation, a textile machinery corporation, an aluminium industrial corporation, a rubber industrial corporation, a pharmaceutical industrial corporation, a geological machinery and instruments corporation, a Beijing-Tianjin-Tangshan power corporation and a Changjiang River navigation corporation. Economically, these corporations were independent accounting units under the guidance of the unified plan of the state. They were each responsible for the management of production, capital construction, labour, planning, supply and marketing, financial affairs, delivery of taxes and profits to the state, and affairs related to their personnel.

The establishment of these trusts not only promoted the development of production and construction but also further improved the management of enterprises. Take the national tobacco industrial corporation for example. According to the statistics of November 1964, the number of cigarette factories throughout the country was reduced from 104 to 61, down 40 percent, and the number of workers were reduced from 59,000 to 41,000, a decrease of 30 percent. The total cigarette-producing capacity, however, increased by 17 percent, labour productivity went up by 35 percent, and cost of production dropped by 21 percent. The quality of cigarettes improved remarkably.

The Labour and Education Systems. As early as the 1950s, Liu Shaoqi advocated the establishment of two educational systems — full-time schooling and part-time work and part-time study — and the establishment of two labour systems — the system of employing regular workers and the system of participation in both industrial and agricultural production. His proposal was acclaimed and affirmed by Mao Zedong and other comrades at a working conference held by the Party Central Committee in 1964. In May that year the Party Central Committee officially decided to put into practice these two sets of systems throughout the country.

At the time, a system of working in rotation was implemented in some mines on a trial basis. In some factories where production was carried out mainly on a seasonal basis, such as sugar refineries, a system of hiring workers by the season was instituted, and in some other enterprises, a system of part-time work and part-time study was implemented. These new systems not only helped alleviate the burden of the state, increased the people's income, created new job opportunities and satisfied the desire of some

workers for more knowledge, but were also conducive to enlivening the labour system and promoting the development of education.

The System of Pricing. In the previous two years, the purchasing prices of grain and other farm products had been raised, but the selling prices and the prices of industrial goods using farm products as raw materials had not been increased accordingly. The prices of cotton and silk worm cocoons also had not been raised. In the mining industry, the selling prices of such important products as coal remained unchanged although their cost of production had gone up because of improved labour conditions. Such irrationality in pricing, if left unchanged, would not only retard an all-round and proportionate development of industry and agriculture, but would inflict losses upon many industrial and commercial enterprises.

The Tenth Plenary Session of the Eighth Party Central Committee and the national conference on prices held in early 1963 discussed the principles of readjusting the prices. As industrial and agricultural production was still not developed, supply on the market was far from abundant and the country was beset with financial difficulties, conditions were therefore not ripe for an overall readjustment of prices. This being the case, the central government decided to readjust the prices of some commodities whose prices were considered irrational while keeping the general price level basically unchanged.

In 1963, the following major readjustments were made. The selling price of grain in the countryside was raised so that it was on a par with the purchasing price; the price of grain for use in industry in the cities and countryside was raised to a level so that there would be no losses; the purchasing price of cotton in various localities was raised, on the average, by 10 percent. At the same time, the prices of silk worm cocoons, animal by-products, timber, silk and satin were raised to a certain extent, while the prices of poultry, eggs, kelp, fountain pens, radios and plastic goods were somewhat reduced. The prices of some heavy industrial products were raised, while the prices of other products including farm machines and small and medium-sized farm tools were reduced. As for coal which was closely related to the people's livelihood, it was decided to raise only the selling prices on the market and by the producers in some areas, where the prices were considered to be particularly irrational; the price of coal in other areas would, with continued state subsidies, remain unchanged. It was also

decided that the state would increase its subsidy by 2.5 yuan for every above-quota ton of coal produced.

To tighten the control over the materials and prices of commodities, the state established the General Administration in Charge of Materials and the National Commission in Charge of Prices in May 1963. With regard to the unified distribution of the means of production by the state, a system of vertical leadership from top to bottom over supply was instituted.

Capital Construction. In September 1964 the central authorities decided to allocate a certain amount of funds for capital construction in 19 non-industrial departments under the administration of the various localities. These departments included, among others, agriculture, forestry, water conservancy, meteorology, aquatic products, culture, education and health, transportation and communications, commerce and urban construction. The amount of funds allocated to the various localities for capital construction accounted for 20 percent of the budgeted investment in 1964 and 1965. At the same time, it was also decided to expand the power of the localities over that portion of their financial resources and materials which they had kept for use whenever necessary.

(4) The "four clean-ups" and "anti-five evils" movements had their impact on the nation's economic work.

Towards the end of 1963 Mao Zedong proposed that economic departments learn from the People's Liberation Army and strengthen their political and ideological work. In 1964, he issued the call: "In agriculture, learn from Dazhai; in industry, learn from Daqing; and the whole nation should learn from the People's Liberation Army." At that time, the Dazhai Production Brigade and the Daqing Oilfield were pace-setters in making great contributions to the state by working hard and relying on their own strength. Learning from their spirit and experience was of significance to promoting industrial and agricultural production.

According to incomplete statistics, the "anti-five evils" and "four clean-ups" movements, which started on a trial basis in 1963, spread to 1,800 state-owned industrial, transportation and communication enterprises and one-third of the counties and people's communes across the country. During these movements, the masses were mobilized to expose and help solve questions related to the working style of the cadres and their malpractices of corruption and embezzlement, violation of law and discipline, thereby

playing a positive role in promoting the consolidation of the enterprises, communes and production brigades and accelerating the development of production.

At that time the accounts in many rural production teams were a pretty mess and their management system left much to be desired. The phenomena of rural cadres eating and taking more than they were entitled to, giving blind directions and being tainted with bureaucratic ways of doing things were quite common. A few of them even bullied the masses.

Therefore, it was completely necessary to take proper measures to solve these problems. During the "four clean-ups" movement, the Party Central Committee stressed repeatedly the necessity of paying close attention to production. Mao Zedong said that an increase or decrease in production should be regarded as a criterion in judging whether a good job was done in this movement.

However, as the scope of class struggle was unduly enlarged by those guiding the movement, numerous problems which did not fall within the scope of class struggle were wrongly regarded as class struggles, thereby resulting in the further development of "Leftist" mistakes.

Agriculture. During the difficult period, various forms of production responsibility system were instituted in some rural areas. According to a survey, under the responsibility system practised in the production teams on a trial basis, farm work was generally contracted to the households or individuals, with the means of production owned collectively and production plans and income distribution arranged under a unified plan.

These forms of responsibility in production were affirmed by Deng Zihui, then Vice-Premier of the State Council. He held that concrete analyses should be made with regard to the "fixing of output quotas based on the individual households" and the "responsibility plots" and said that they should not be indiscriminately labelled as "going it alone." The responsibility system linking remuneration with output was practical so long as it did not involve the ownership of the means of production. He said that in instituting the responsibility system in the production teams, the principle should be: "Large-scale farm work should be done collectively while minor farm work should be contracted to the individual households." Farm work which required high techniques, such as tea cultivation in the south and tussah raising in the north, could also be contracted to the individual households.

But during and after the Tenth Plenary Session of the Eighth Party Central Committee, these opinions were labelled as "stirring up the evil wind of going it alone" and "taking the capitalist road," and the extension of plots for private use, the extension of free markets, the increase of small enterprises with sole responsibility for their own profits or losses, and the fixing of output quotas based on the individual households were all criticized within the Party as revisionist viewpoints.

Commerce and Marketing. During the difficult period, diverse trade channels embracing the different economic sectors were restored under the leadership of state-owned commerce. This played a positive role in promoting circulation. Under the influence of "Leftist" thinking, the supply and marketing co-operatives failed to give full play to the role of collective economy, and the co-operative shops and teams did not develop in the way they should have developed. In particular, overly rigid restrictions were imposed on village fair trade in the countryside and on the farmer fairs in the big and medium-sized cities.

According to statistics from 14 big and medium-sized cities at the end of 1962, the amount of transactions at these fairs, calculated according to the listed prices of state-owned enterprises, averaged only 2 percent of the total retail sales of social commodities. Prices at these fairs dropped, on the average, 54 percent from the end of 1961. All this demonstrated that trade at these fairs did not hold an unduly big proportion in the nation's commerce as a whole and that it had developed in a normal way.

In the years when the national economy was in difficulty, speculation and the wilful raising of prices were rife, which could not but affect trade at the fairs. It was therefore necessary to take adequate measures to check these malpractices and strengthen management over these fairs.

In March 1963, however, it was decided to strengthen the management of village fair trade, reduce its scope, gradually replace it and take other appropriate measures suited to the different localities. According to this principle, village fairs should be gradually replaced by state-owned commercial undertakings and the supply and marketing co-operatives whenever and wherever this was feasible. It was explicitly stipulated that the fairs in the cities should be retail markets for sundry farm and sideline products, and the sellers should only be farmers from the outskirts or small pedlars licensed to transport fresh products over a short distance, city

dwellers selling household sideline products, and individual handicraftsmen selling miscellaneous handicraft articles.

Such rigid restrictions and measures to discriminate against and replace the trade fairs meant much more than striking at speculation. The result was that the circulation channels which had just been restored bogged down once again, thereby adversely affecting the development of farm production and the improvement of the people's livelihood.

Enlarging the Scope of the "Anti-Five Evils" and "Four Clean-Ups" Movements in the Cities and Countryside. It was estimated in the summer of 1964 that the leadership in about one-third of the rural grass-roots organizations was not in the hands of the people. This wrong estimate resulted in the expansion of the scope of struggle in the cities and rural areas. At the same time, socialist state-owned enterprises practising economic accounting were also criticized for following the "capitalist method of management."

Sun Yiefang, a famous Chinese economist, advocated as early as 1957 taking profit quotas as the central task of planning and statistical work. In 1964, however, he was criticized for "advocating the revisionist road."

(5) The focus of economic work was shifted from "solving the questions of food, clothing and other daily necessities" to "preparation against war."

It was correctly decided in 1963 that economic work should follow the principle of "solving the question of food, clothing and other daily necessities, strengthening the basic industries and at the same time paying due attention to national defence and mastering advanced science and technology." Later, because the United States escalated the war in Indochina, the Party Central Committee, considering that the international situation was becoming extremely serious, decided to strengthen the nation's preparations against war. Beginning in 1965, therefore, the focus of economic work was shifted to preparations against war.

In April 1965 the Party Central Committee, proceeding from the needs of coping with the worst possible situation, issued the call to immediately pool all the resources to speed up the construction of the inland provinces.

The general goal laid down at that time was to build a relatively comprehensive strategic industrial base in the rear areas, combining both industry and agriculture and serving the needs of national defence and

agriculture. The stress was to speed up the construction of the rear area in southwest China.

To achieve this, it was necessary first of all to build without delay trunk railway lines linking southwest with northwest China. The method was to divide the lines into sections which were to be built simultaneously by several construction teams. The aim was to concentrate all the forces and strive to complete the building of the Sichuan-Guizhou railway line in 1965, the Yunnan-Guizhou railway line in 1966 and the Chengdu-Kunming railway line in 1969.

To speed up the construction of the inland provinces was of significance to improving the geographical distribution of our country's productive forces and coping with the possible danger of war. The Party Central Committee pointed out that the building up of southwest China should be done quickly but not rashly.

Actually, because of the overestimation of the seriousness of the situation, construction in the inland provinces was carried out overhastily and the needs in the coastal areas were neglected. This resulted in a series of problems in production and construction.

Section III Successful Fulfilment of the Task of Readjustment

In the three years from 1963 to 1965, although the "anti-five evils" and "four clean-ups" movements and the efforts to "combat revisionism" and "prepare against war" greatly affected economic work, the task of "readjustment, consolidating, filling out and raising standards" still scored great achievements.

In his "Report on the Work of the Government" delivered in December 1964 at the First Session of the Third National People's Congress, Zhou Enlai said: "The task of readjusting the national economy has been basically accomplished. There has been an all-round upsurge in agricultural and industrial production, and the entire economy has taken a turn for the better and is entering a new period of development." He also said that in 1965 further efforts would be made to complete the unfinished tasks in the work of readjustment and that preparations should be made for the Third Five-Year Plan which would begin in 1966.

After efforts made in the five years from 1961 to 1965, the work of "readjustment, consolidating, filling out and raising standards" in developing the national economy achieved complete success. Industrial and agricultural production developed in a proportionate way and output topped the 1957 level.

In 1965 the total output value of industry and agriculture was 198.4 billion yuan, of which agriculture accounted for 59 billion yuan and industry 139.4 billion yuan. Compared with 1957, the total industrial and agricultural output value registered an increase of 59 percent, of which the increase for agriculture was 10 percent and industry 98 percent. More important was that rational readjustment had been made in the relations between the various major departments and links of production.

For example, the ratio of output value between industry and agriculture was readjusted from 4:1 in 1960 to 2:1 in 1965. This was relatively close to the objective needs of industrial and agricultural development at the time.

The setup in industry itself had also been improved. The ratio of output value between light and heavy industry was raised from 33:67 in 1960 to 51:49 in 1965. Judging from past experience, this ratio not only guaranteed construction and the people's livelihood but ensured stability on the market. The proportion of the output value of industries producing chemical fertilizers, insecticides and farm machines in aid of agriculture was raised from 0.6 percent of the total industrial output value in 1957 to 2.9 percent in 1965. The proportion between the mining industry and the processing industry was, by and large, restored to the 1957 level.

In agriculture, production had also developed in a more proportionate way than before. Total grain output in 1965 was 194.5 million tons. This was almost 50 million tons more than in 1960 and approached the amount produced in 1957. The net amount of grain collected and purchased by the state was 33.6 million tons, about the same as in 1957 but 7.9 million tons more than in 1962. In 1965, the output of cash crops including cotton, flue-cured tobacco and sugar beet increased by a big margin, with cotton up 27 percent, flue-cured tobacco up 45 percent and sugar beet up 32 percent over the 1957 figures. The proportion of the output value of cash crops in the total output value of agriculture had also increased.

The proportion between accumulation and consumption tended to be normal. Taking the index in 1952 as 100, then the total national income

calculated in terms of comparable prices was 153 in 1957; it dropped to 130.9 in 1962, and increased again to 144.9 in 1963 and 168.8 in 1964; in 1965 it was 197.5, an increase of 29 percent over 1957.

The rate of accumulation in the amount of national income put to use was 24.9 percent in 1957; but it increased to 43.8 percent in 1959 and 39.6 percent in 1960, resulting in a serious disproportion between accumulation and consumption. With the aim of cutting investment and maintenance spendings, the rate of accumulation was reduced to 19.2 percent, 10.4 percent and 17.5 percent respectively from 1961 to 1963. The result was that there were hardly enough financial resources for expanded reproduction. In the following two years of 1964 and 1965, the rate of accumulation was increased to 22.2 and 27.1 percent, which tended to be basically normal.

Financial revenue and expenditure were in balance, the market was stable and the people's livelihood had improved. In the period from 1959 to 1962, the state's financial deficit amounted to 18.01 billion yuan, but in the three years from 1963 to 1965, the state had a favourable balance of 1 billion yuan, in addition to having repaid all its foreign debts. The supply of commodities for retail sales, which used to fall short of the social purchasing power by 2.09 billion yuan, had increased in the 1963-65 period, exceeding the purchasing power by 5.3 billion yuan.

In the most difficult years of 1961 and 1962, some commodities were sold at high prices, while commodities which could be purchased only with coupons had increased in number. With more commodities now available on the market, these temporary measures were rescinded one after another. Retail prices and the prices at the fairs throughout the country dropped by a big margin, and in 1965 they were only 9 percent and 59 percent higher than the prices in 1957.

As regards the people's livelihood, because agricultural production had not been completely restored, average per-capita consumption of grain, edible oil and cotton cloth in 1965 was still slightly lower than in 1957.

Generally speaking, however, because of the restoration of production and increased supplies on the market, the purchasing prices of many farm products were raised, and about 40 percent of the nation's workers and staff members got a pay raise in 1963 while most of the idle personnel and job-waiting youth in the cities and towns were given various kinds of employment. Thus the Chinese people managed to tide over the difficult period and their livelihood had somewhat improved.

XXI Successes of All-round Economic Construction

Section I Achievements Gained Through a Tortuous Path

China's economy suffered heavy setbacks during the eight years from 1958 to 1965. However, after making the necessary readjustments, our country still made great achievements, and an initial material and technical foundation was laid for building an independent and relatively comprehensive system for our industry and national economy.

In June 1981, the Sixth Plenary Session of the 11th Party Central Committee adopted the "Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China" which pointed out: "The material and technical basis for modernizing our country was largely established during that period. It was also largely in the same period that the core personnel for our work in the economic, cultural and other spheres were trained and that they gained their experience."

(1) Industrial production capacity increased by a big margin and industrial output doubled.

During the 1958-65 period, investments in industrial capital construction totalled 93.8 billion yuan and 531 large and medium-sized projects were completed. In addition, a large number of key enterprises were newly built or expanded.

In the field of metallurgical industry, the Anshan Iron and Steel Complex, the largest iron and steel base in China, was built step by step. The large blast furnaces and open-hearth furnaces in the Wuhan Iron and Steel Company and the Baotou Iron and Steel Company, the two newly built iron and steel bases, were put into operation. Other iron and steel companies were built one after another. These included the Shijingshan Iron and Steel Plant in Beijing, the Taiyuan Iron and Steel Company in Shanxi, the Tianjin Steel Plant, the Tangshan Iron and Steel Plant, the Nos. 1, 3, and 5 Iron and Steel Plants in Shanghai, the Maanshan Iron and Steel Company and the Chongqing Iron and Steel Company. Among the nonferrous metals

enterprises built and put into operation were the Baiyin, Zhongtiaoshan, Jinchuan and Gandongbei nonferrous metals companies and a number of important smelting factories.

As for the energy industry, in addition to building dozens of coal enterprises and power plants, the Daqing Oilfield in Heilongjiang Province, with an annual output of 10 million tons of petroleum, was built. At the same time, the Shengli Oilfield in Shandong Province and the Dagang Oilfield in Hebei Province were also being opened up. In addition, a large number of important enterprises in the machine-building, chemical, building materials, timber, light and textile industries were set up.

Statistics showed that by 1965 the total value of the fixed assets of China's industry had reached 104 billion yuan, three times the 1957 figure, and both production capacity and output had increased considerably. Compared with 1957, steel output had increased by 128 percent; coal, 77 percent; electric power, 250 percent; crude oil, 675 percent; synthetic ammonia, 840 percent; cement, 138 percent; timber, 43 percent; cotton yarn, 34 percent; cotton cloth, 24 percent; and machine-made paper, 90 percent. Total industrial output value in 1965 was nearly double that of 1957.

During the "great leap forward" period, economic efficiency was low because attention was focused on high speed. But after five years of readjustment, quality was improved and labour productivity and other technical and economic targets were raised by big margins while consumption was greatly cut. In 1965, the rate of up-to-standard pig iron was 99.85 percent and that of rolled steel was 98.5 percent. The rate of first-grade cotton cloth was 97.4 percent, while the rock content of crude coal had dropped to 0.64 percent. The performance and quality of some products of the machine-building industry had reached or approached the advanced world levels.

Statistics showed that the highest ever technical and economic indices in China's industry were mostly achieved in the years between 1964 and 1966. They included indices for the rate of up-to-standard pig iron, the utilization coefficient of open-hearth and blast furnaces, the rate of up-to-standard steel ingots from electric furnaces, the grades of copper, aluminium and lead and their rate of recovery, the rate of recovery and tunnelling in coal mines and the rate of loss of crude oil.

(2) An industrial system with a fairly large production scale and a fairly high technical level was set up.

In the field of energy industry, power networks had been set up in most parts of China. A modern coal-mining industry had also taken shape, embracing geological prospecting, designing, construction, coal-dressing, machine-building and scientific research. In 1965, crude oil output not only increased by more than 600 percent over that of 1957, but the varieties of petroleum products also increased by more than 200 percent. The nation had become basically self-sufficient in its supply of petroleum.

As for the metallurgical industry, the wrong tendency of unwarranted large-scale expansion and seeking high output, characteristic of the "great leap forward" period, was corrected and new varieties of products were turned out in large quantities to meet the needs of the national economy. Incomplete statistics showed that over 900 kinds of steel and 9,000 kinds of rolled steel were produced in 1964, more than double the figures for 1957. China also produced refractory alloy steel, high-precision alloy steel, high-purity metals and rare nonferrous metals which the nation could not produce before. By 1964, the rate of self-sufficiency in the supply of rolled steel had risen to 95 percent as against 85 percent in 1957.

In machine building, over a dozen basic industries were set up. They included industries for making metallurgical, mining and power-station equipment, electrical appliances and materials, petrochemical equipment, ships, aircraft, locomotives, automobiles, bearings, metal cutting machine-tools, tools, universal machines, light industrial and textile machines, engineering machinery, instruments and meters. Thus a machine-building system producing a fairly complete array of machines and tools had been set up. During these few years, thousands of new products were turned out. In 1964, 540 types of machine tools were produced, 2.8 times as many as in 1957. As for motor vehicles, in addition to the *Jiefang* (Liberation) trucks, the *Huanghe* (Yellow River) and *Yuejin* (Leap Forward) trucks with different loading capacity, and the *Hongqi* (Red Flag) limousines were produced. Among the new types of machinery produced were: 12,000-ton hydraulic presses, 350-ton gantry cranes, wheel and wheel hoop rolling mill, primary rolling mills with 1,150-mm-diameter rollers, a blast furnace with a capacity of 1,513 cubic metres, 1.2 million tons of vertical shaft equipment for coal mines, large oil-refining equipment and nitrogen fertilizer equipment, 10,000-ton ocean liners, internal combustion locomotives, electric locomotives, generators with inner water-cooled stator and rotor, 50,000-kw turbogenerating sets and 72,500-kw water turbine generating sets.

By 1964, the nation had achieved over 90 percent self-sufficiency in the supply of major machinery and equipment as against 60 percent in 1957. China had also supplied complete sets of textile machines to more than 30 countries and regions throughout the world.

Since 1958, hundreds of coal pits had been built in various parts of the country, and only one was designed by a foreign country which also supplied all the equipment. The equipment for the Wujing, Quzhou, Jiefangjun, Guangzhou and other newly built chemical fertilizer plants were all designed and manufactured in China.

In the chemicals industry, apart from a marked increase in the output and varieties of acid, alkaline, chemical fertilizers, rubber and medicine, China had also set up a petrochemical industry. By the end of 1965, the annual production capacity of the main petrochemical products were: 5,000 tons of ethylene, 15,000 tons of synthetic rubber and 3,000 tons of plastics. Other plants under construction had an annual capacity of 36,000 tons of ethylene, 34,000 tons of high pressure polyethylene, 5,000 tons of polypropylene, 10,000 tons of synthetic fibre, 25,000 tons of synthetic alcohol, 100,000 tons of synthetic ammonia and 160,000 tons of urea.

In the meantime, new industries such as the electronics, atomic energy and guided missile industries also developed step by step. By 1965, the electronics industry had completed the prototypes of 760 kinds of new products and was able to produce different kinds of radar, broadcasting and television transmitting equipment, equipment for TV centres, wireless telecommunication equipment, atomic rays apparatuses, various kinds of meteorological apparatuses, marine acoustics equipment, telephone exchanges, computers and TV sets.

As for the building materials, light and textile industries, they were replenished with new branches and new products. A number of new-type building materials enterprises were built, producing glass fibre, cement and asbestos cement products. A number of medium-sized viscose fibre plants were also established. During this period, the country also imported complete sets of equipment and technology for producing vinylon and acrylic. With the construction of the Beijing Vinylon Factory and the Lanzhou Chemical Fibre Plant, China began producing synthetic fibres.

Following the development of the petrochemical industry, synthetic detergents and fatty acids were produced after a period of experiments. By

relying on their own efforts, the light industrial departments set up factories producing wrist-watches, cameras, photo-sensitive materials, optical glass and plastic goods for daily use.

(3) The distribution of industries became more rational.

During this period, the existing industrial bases in the coastal areas were further consolidated. In northeast China, for instance, the opening up of the Songliao Oilfield reinforced the heavy industrial base in that region. The growth of metallurgical and coal industries in east China lent great support to the development of the machine-building and chemical industries, thereby laying a foundation for the building of heavy industry.

In the vast interior and border provinces and autonomous regions, which had hardly any industry before, modern industries of varying scales began to take shape. By that time, 30-40 percent of the newly added production capacity for mining, steel-making and steel-rolling were in the interior provinces and autonomous regions, and iron and steel plants had been set up all over China.

The newly built coal mines were mostly in northwest, southwest and east China, thereby changing the abnormal situation in which coal production was concentrated in north and northeast China.

In the interior provinces dozen machine-building bases had sprung up.

In forestry, aside from further opening up the forests in northeast China and Inner Mongolia, new forest resources were exploited in east, central-south, southwest and northwest China. In addition, one or several key chemical, building materials, light and textile enterprises were set up in many areas.

As a result of these efforts, a number of industrial centres were set up in the vast hinterland, such as the iron and steel bases in Wuhan and Baotou, coal bases in Shanxi, Inner Mongolia and Henan, a petrochemical industrial centre in Lanzhou of Gansu Province and iron and steel as well as machine-building bases in Chengdu and Chongqing in Sichuan Province. The industrial output value in the interior areas had increased from 32.1 percent in 1957 to 35 percent of the nation's total in 1965.

Modern industry in the frontier regions where the minority nationalities lived in compact communities also developed rapidly. Compared with 1958, the power generating capacity in these regions had increased 3.5 times by 1965, steel output was upped 4.5 times, cotton yarn

increased nearly 3 times and chemical fertilizers more than 20 times. The Xinjiang Uygur Autonomous Region, which did not have a single spindle and could not produce one kilogramme of steel before liberation, became self-sufficient in cotton and many kinds of industrial goods. The Guangxi Zhuang Autonomous Region, where modern industry was unheard of before, was now able to turn out electric power-driven machinery, mining equipment, vertical milling machines and precision electric meters. The Inner Mongolian Autonomous Region had set up a fairly developed industry. Apart from the iron and steel base in Baotou, a fairly complete animal by-products processing industry had been set up.

(4) Communications and transport also developed.

During the 1958-65 period, a total of 21.7 billion yuan were invested in developing communications and transport, postal and telecommunications services. This was more than double the amount in the First Five-Year Plan period. About 7,200 kilometres of new railway lines were built, and 12 trunk lines were either completed or under construction.

The Baotou-Lanzhou Railway line, linking the two major industrial bases of Baotou and Lanzhou and passing through the Inner Mongolian and Ningxia Hui Autonomous Regions and Gansu Province, was open to traffic in August 1958. Following this, two other trunk lines—the Lanzhou-Xining and Lanzhou-Urumqi Railway lines—were built. The 187-kilometre-long Lanzhou-Xining line, linking Qinghai Province with other parts of the country, was completed in February 1960. The 1,904-kilometre-long Lanzhou-Urumqi line was completed in 1965, with the Lanzhou-Sule River section built early in 1957. At the same time, the Gantang-Wuwei Railway line, which linked the Lanzhou-Urumqi line with the Baotou-Lanzhou line, was also built, thus forming the second major east-west route to Xinjiang.

In this way, the five provinces and autonomous regions in northwest China were connected by railway lines and the whole northwest hinterland was brought within easy reach of the coastal areas.

The construction of railways in southwest China was also given priority during this period.

In March 1959, the Duiyun-Guiyang section of the Guiyang-Liuzhou Railway line was completed. Soon afterwards, the Ganshui-Guiyang section of the Chongqing Guiyang Railway line and the Basitao-Chongqing

River Bridge at Chongqing was also built. Thus the entire Chongqing-Guiyang Railway line was open to traffic. With this line joining the Chengdu-Chongqing line, Guangxi, Guizhou and Sichuan were all linked up by railways.

In the meantime, the construction of the Chengdu-Kunming Railway, the Guiyang-Kunming Railway and the Zhuzhou-Guiyang Railway was underway. Work on the 1,093-kilometre-long Chengdu-Kunming Railway, a trunk line in southwest China, began simultaneously from the southern and northern ends in 1958, and by 1965 the laying of tracks in the northern section had reached Shawan and work in the southern section got as far as Guangtong. The Guiyang-Kunming Railway was a trunk line linking Yunnan and Guizhou Provinces. In 1965, the Guiyang-Liuzhi section of this line was open to traffic. Construction of the Hengyang-Pingxiang Railway, an important line passing through areas in western Hunan inhabited by minority peoples, also began, and in 1965 the Xiangtan-Jinzhusan section of this line was completed.

Also in these few years, several sections of the Beijing-Yuanping Railway line were built, and several sections of the Beijing-Guangzhou, Tianjin-Pukou, Shijiazhuang-Taiyuan and Lanzhou-Lianyungang trunk lines were double-tracked. The electrification of the Baoji-Chengdu Railway was also started, and the Huanghe River Bridge at Zhengzhou was built. In 1959 construction of the Changjiang River Bridge at Nanjing began.

Thus, with the exception of Tibet, all the provinces and autonomous regions were linked by railways, thereby greatly boosting the transportation of goods. In 1965, railway freight volume topped 483.58 million tons, a 76 percent increase over 1957.

During the same period, the mileage of highways open to traffic had more than doubled and the number of trucks of various types had increased by 2.6 times. Most of the counties and important towns in the country were accessible by motor vehicle.

Although the increase in the mileage of inland river navigation was slow, the number of ships and barges had increased by 2.9 times and the volume of freight had increased by 50 percent. Qinhuangdao, Tanggu, Shanghai, Huangpu, Zhanjiang and other ports were expanded, and over a dozen deep-water berths for 10,000-ton ships were built, thereby increasing their loading and unloading capacity.

The number of ocean-going cargo vessels had increased from 10 in 1957 to 63 in 1965, and their carrying capacity had increased from 99,000 tons to 602,000 tons. Three shipping lines to Southeast Asia, Europe and Africa were opened, with the volume of freight increased by 4 times.

Compared with 1957, the civil aviation mileage had increased by 50 percent in 1965. A number of modern airports were built, such as the Capital Airport in Beijing, the Hongqiao Airport in Shanghai, the Baiyun Airport in Guangzhou and the Shuangliu Airport in Chengdu.

Compared with 1957, postal routes had increased by 57 percent, by 1965 cable routes had increased by 41 percent and long-distance telephone routes by 111 percent. Postal services were extended to the vast rural areas, and there were around 10 post and telegraph offices in each county, and 95 percent of the rural people's communes were accessible by telephone.

(5) Capital construction and technical reforms in agriculture began to yield results.

Beginning from early 1958, there appeared in the countryside a high tide in building water conservancy works. A total of 13.79 billion yuan were invested in these projects in the eight years that followed, averaging 1.72 billion yuan a year, or 3.2 times the average yearly investment in the First Five-Year Plan period. A large number of water conservancy projects were built, of which over 290 were large and medium-sized ones. Besides continued efforts to harness the Huai River, work on harnessing the Huanghe, the Haihe, the Zhujiang, the Liaohe and some tributaries of the Changjiang River was also started.

In these eight years, more than 150 large and medium-sized water conservancy projects were completed, over 2.2 times as many as the total number of projects completed during the First Five-Year Plan period. However, in the case of some projects, the economic results were poor resulting from inadequate hydrological and geological surveys and rush work done hastily, with numerous problems left to be solved. In some places, the soil on the plains turned to alkaline. After five years of readjustment, with the emphasis on reinforcing the insecure sections and adding auxiliary works to some projects, most of the above-mentioned projects later proved to be successful and played an important role in promoting agricultural production.

First of all, the capability of several major river systems to resist flood

was greatly increased. In 1955, after the Second Session of the First National People's Congress approved an overall plan to harness the Huanghe River and develop its water resources, the embankments on the lower reaches of the river were raised and reinforced, the Sanmen Gorge key water control project and the large reservoirs of Liujia Gorge, Yanguo Gorge, Qingtong Gorge and Dongping Lake were built. Together these could control 92 percent of the Huanghe River basin and store 35.4 billion cubic metres of water. As a result, ordinary floods in the lower reaches of the Huanghe could be checked.

In the mountain areas of the Haihe River system, large reservoirs, such as the Miyun, Yuecheng, Gangnan, Huangbizhuang, Wangkuai, Yuqiao and Longmen reservoirs, as well as a number of small and medium-sized ones were built, thereby greatly increasing the water storage capacity. On the plains, reservoirs were also built and canals were dug so that the water could flow directly into the sea without passing through the Haihe River in Tianjin. All this had greatly increased the capacity to divert the flow of excess water into the sea.

Large-scale survey and research work on the Changjiang River and its tributaries was carried out and plans to develop their water resources were mapped out. Water conservancy works were built in some localities along its tributaries. For example, the Danjiangkou reservoir with a capacity of 28.3 billion cubic metres was built on the Hanshui, the largest tributary of the Changjiang, and two large water conservancy projects were built on other tributaries.

The capability of the Liaohe and Songhua Rivers in northeast China to resist floods had also been increased to varying degrees.

In the Zhujiang River Delta, more than 20 large and medium-sized reservoirs and canals were completed. Together with 2,500 power-driven drainage and irrigation stations, these projects played an enormous role in promoting local farm production.

In building water conservancy works along these major rivers, attention was paid to both flood prevention and irrigation. In Beijing, for instance, after building the large and multi-purpose Miyun Reservoir on the outskirts, canals were dug to lead the water from the reservoir to the city. This not only harnessed the Chaobai River and prevented the nearly 270,000 hectares of farmland on the lower reaches from being flooded, but also ensured water supply for the capital's agriculture and industry.

Compared with 1957, farmland under irrigation in 1965 had increased by 5.7 million hectares throughout the country, and the proportion of irrigated land in total area of cultivated land had gone up from 24.4 percent in 1957 to 32 percent in 1965.

Industries in aid of the technical transformation of agriculture developed quickly, particularly the manufacture of semi-mechanized farm implements. By 1964, China had 30 million semi-mechanized farm implements for ploughing, irrigating, protecting plants, reaping, threshing, transporting, raising livestock and processing farm and sideline products. They played an important role in ensuring the timely cultivation of crops and in harvesting and processing.

China's agriculture had considerably raised its level in modern techniques and equipment. This was best illustrated by a comparison between the 1957 and 1965 figures: internal combustion engines for drainage and irrigation had increased from 265,000 hp to 663,000 hp; chemical fertilizers from 151,000 tons to 1,726,000 tons; and insecticide from 65,000 tons to 193,000 tons. Moreover, their varieties had increased and were better suited to the requirements of agricultural production.

Electric power for agricultural use also had increased from 140 million kwh in 1957 to 3.75 billion kwh in 1965. Likewise, the area of machine-ploughed fields in total amount of cultivated land had risen from 2.4 percent in 1957 to 15 percent in 1965, and the area of machine-irrigated land in total area of land under irrigation had risen from 4.4 percent in 1957 to 24.5 percent in 1965.

Apart from these successes, a large amount of work was done in afforestation, popularization of fine strains, soil amelioration, control of water and soil erosion, and meteorology. Take afforestation for example. By 1965 shelter belts had been built in the western part of northeast China, in eastern Inner Mongolia, along the 2,000-kilometre-long coast of Guangdong Province as well as on both sides of the Great Wall. In many places, the trees had grown into forests, and fruit trees and oil-bearing plants were grown over large areas in the light of local conditions.

Regarding the popularization of fine strains and weather forecast, progress had also been made. By 1965 fine-strain farms had been established in 1,780 counties throughout the country, and a network for promoting

and popularizing fine strains had been gradually formed. Meteorological stations and observatories had been set up in 90 percent of the special administrative prefectures and 80 percent of the counties.

In 1965, although the total grain output had not been restored to the 1957 level, the yield per unit was 3 percent higher than in 1957. The total output of cotton, flue-cured tobacco and sugar beet increased by 27 percent, 45 percent and 32 percent respectively.

(6) Education, science and technology developed vigorously.

After readjustment and reorganization, teaching quality in the schools was quickly restored and improved, and education developed considerably in scale.

According to statistics, nearly 30 institutes of higher learning were newly built or expanded in those years including the China University of Science and Technology, the China University of Medical Science, Jilin University, Fudan University, Shandong University, Guangxi University and institutes of chemical industry in Beijing, Nanjing and Shenyang. The number of students enrolled in these universities and colleges in 1965 was 674,000, and increase of 52 percent over the 1957 figure. The number of graduates in the years from 1957 to 1965 was 1.195 million, or 3.6 times the number in the previous eight years.

Middle schools were also expanded. In 1965, the number of middle school students was 9.885 million, an increase of nearly 40 percent over that of 1957. In those eight years, 16.76 million students graduated from middle schools, 1.89 times as many as in the previous eight years.

In addition, there were also 188,000 graduates from spare-time colleges and 1.47 million graduates from spare-time middle schools. From 1957 to 1965, the number of scientific and technical personnel had increased from 1.2 million to 2.3 million.

During the same period, Chinese scientists and technicians achieved outstanding results in their work. In agriculture, they were the first to succeed in cultivating the short-stalk rice plant; after a systematic study of the life of locusts in east Asia, they made their contributions to forecasting the onslaught of locusts and eliminating the locust plague.

In geological prospecting, basing themselves on the principles and methods of geological dynamics, they found rich oil reserves in continental strata and discovered many important metal deposits with the help of the masses.

In industry, they evolved a new technique for refining vanadium titanium magnetite of the high-titanium type. They studied, designed and manufactured a number of high-quality equipment, such as 12,000-ton hydraulic press and generator with inner water-cooled stator and rotor.

In basic scientific theories, they made clear the first ribonucleic acid structure, thereby laying the foundation for the study of synthetic acid. In particular, the synthesis of bovine insulin achieved by Chinese scientists for the first time in the world won high appraisals from scientists the world over.

The successful explosion of China's first atomic bomb in 1964 further reflected the progress achieved in science and technology. The bomb was designed and manufactured after years of careful study by Chinese scientists and workers who relied entirely on their own efforts. Nearly a thousand experiments had been conducted before they successfully exploded the bomb according to plan.

(7) Rich experiences in socialist construction had been accumulated.

Chinese economic workers and leaders at various levels had scored successes as well as made grave mistakes in the nation's overall economic construction. Although the experiences gained had not been systematically summed up or sufficiently understood, practice taught the cadres that it was necessary to handle economic affairs in accordance with the inherent laws of economic development. The experiences which had been summed up at that time and the working regulations drafted later on in connection with industry, agriculture, commerce, education and science were of great help in working out in a relatively systematic way concrete policies suited to the actual conditions. This demonstrated the fact that great progress had been made at the time in giving leadership over economic work.

Just as Premier Zhou Enlai pointed out in his report on the work of the government in 1964, "This great achievement, like the great achievements we have gained in material construction, will have an important and far-reaching impact on our future socialist construction."

Section II Main Experiences

From the practice of those few years, which was both remarkable and full of twists and turns, rich experiences and profound lessons had been gained. They could be summed up as follows:

(1) The readjustment of the relations of social production must not exceed the existing level of the productive forces. The contradictions between the relations of production and the productive forces are still the basic contradictions in a socialist society. With regard to the newly established socialist relations of production, partial readjustments and reforms must be made from time to time, so that they will be continuously improved. However, there are basic differences between a socialist society and a communist society. Only by relying on the existing socialist relations of production and through long-term and full development of the productive forces is it possible to gradually expand the scale and raise the level of public ownership, and only when the material and technical level is highly advanced can the transition to communism be gradually effected. This is the objective law of social development.

In 1956 China basically established a socialist system characterized by the public ownership of the means of production and the implementation of the principle of distribution—"to each according to his work." Owing to the fact that overly rapid changes were carried out in the relations of production at that time, certain readjustments were made in the latter half of 1956 and in 1957. The size of the agricultural producers' co-operatives, for instance, was reduced, and pedlars and small handicraftsmen ceased to be a constituent part of the joint state-private enterprises.

Such a diversified form of economy, with the socialist ownership holding the dominant position, conformed with the general level of China's productive forces at that time. It should therefore be maintained and continuously consolidated and perfected. In 1958, however, there was a craving for the incessant expansion of the scale of collective management and the raising of the level of public ownership in the mistaken belief that that was best way to speed up development.

In the rural areas, there was the overeagerness to merge the agricultural producers' co-operatives into people's communes, which were larger in size and had a higher degree of public ownership. In the cities and towns, the various kinds of co-operative organizations and joint state-private enterprises were overhastily turned into enterprises owned by the whole people in an effort to eliminate the individual economy. The industrial and mining enterprises abolished the piecework wage system one after another and the rural people's communes introduced the supply system of payment

in kind and the system of providing free meals at the public canteens. These reforms appeared to be very "advanced," but in reality they blurred the distinction between socialism and communism, and were divorced from the actual level of China's productive forces. As a result, they seriously damaged the rural productive forces and brought great difficulties to the national economy.

To overcome these difficulties and setbacks, the government readjusted the rural economic policies and made determined efforts to change the rural people's commune's unified accounting system into a system of three-level ownership with the production team (equivalent to an agricultural producers' co-operative of the elementary type) as the basic accounting unit. The supply system was also abolished and public canteens were closed. The system of appraisal of work done and the allotment of work-points accordingly was instituted and the socialist principle of distribution, "to each according to his work," was applied. The small plots of land for private use were returned to the farmers, household sideline occupations were restored and rural fairs were reopened. Because these measures basically met the requirements of developing the rural productive forces, agricultural production rapidly returned to normal.

At the same time, in the cities and towns the co-operative organizations and individual handicraft industry were also restored, individual pedlars were allowed to do business and urban fairs were reopened to supplement the state-owned economy.

Practice proved that in a country like China where the productive forces were still very low and small production had held the dominant position for a long time, different economic sectors and diverse forms of management must be allowed to coexist for a considerable period of time to come and the scale of collective management should not be too large even after the new socialist economic system had been established and public ownership had occupied the dominant position. Any attempt to overstep the existing level of productive forces and to raise the degree of public ownership or prematurely effect a transition to communism would inevitably cause enormous damage to the productive forces.

(2) In determining the speed of economic construction, the actual conditions of the country must be taken into consideration and the principle of steady progress must be upheld.

China is a big agricultural country with a backward economy, a large population and limited arable land. The foundation of its industry and communications is poor, its agricultural production is backward, with 80 percent of its population engaged in farming, and its education, science and technology are backward, too. Such being China's basic conditions, it will be extremely difficult to bring about a change without scores of years of hard work. In carrying out socialist construction, therefore, it is necessary to be prepared for long years of arduous struggle and persist in the principle of steady progress. In explaining the law of construction, Lenin said: "In the economic field, development is inevitably more difficult, slower, and more gradual. This arises from the very nature of the activities in this field compared with military, administrative and political activities. It follows from its specific difficulties, from its being more deep-rooted, if we may so express it." (Lenin: Selected Works, Vol. II, p. 588) These remarks fit China to a T.

It was precisely due to the neglect of the need for economic work to be "more deep-rooted" and the lack of consideration for the difficulties and limitations of China's backward agriculture that the "great leap forward" movement was recklessly launched in 1958. Dizzy with success, some leaders believed that by dint of the spirit of working with all one's might, production would be increased several or even a dozen times. There was the misconception that since great success had been achieved in agricultural production, it followed that industrial construction could be carried out on any scale, irrespective of the actual conditions. Thus the call was issued to develop the iron and steel industry, communications and transport, water conservancy, education and all other undertakings in a big way in an attempt to create the miracle of achieving in one day what could only be accomplished in 20 years. The result was "haste makes waste" as all these attempts were beyond the objective possibilities.

When economic readjustments were made in 1962, the government was resolved to stop or postpone certain industrial and capital construction projects. According to the plan industrial production, especially heavy industrial production, and capital construction were not to be increased, but should be kept at a level compatible with agricultural production.

In 1963 when the economy began to pick up, the government, aware of the weak links that still existed in the national economy, decided to continue

the work of readjustment. As a result, production continued to grow and industrial output in 1965 outstripped the 1957 level by a wide margin.

Practice had proved that in view of China's actual conditions, the speed of construction should not be too fast. Only when we are aware of the arduous nature of China's economic development and focus our attention on its long-term growth and advance step by step can we achieve real speed through steady progress.

(3) In developing the socialist economy, it is necessary to uphold the principle of planned and proportionate development so as to achieve an overall balance.

Achieving an overall balance through the proportionate development of the different sectors of the economy is the objective requirement of the socialist economy and the fundamental task of planning.

Like other things, balanced development of the national economy is always relative, while imbalanced development is absolute. However, the economy must not be allowed to develop uncontrolled. Only by recognizing imbalance and exercising control and regulating through the method of overall balance so as to constantly bring the imbalance between the various sectors and links of the national economy back to balance on a new basis can the national economy develop fairly smoothly.

One of the major lessons we have learnt from the three-year "great leap forward" movement is that we ignored the importance of overall balance. The one-sided emphasis on "taking steel as the key link" at that time was in reality an act of overlooking the need for an overall balance in the national economy. The practice of emphasizing accumulation, heavy industry and construction to the neglect of consumption, agriculture, light industry and the need of the market and the people's livelihood could only result in the serious disproportion between different sectors of the national economy and the disruption of the interrelations between production, distribution, exchange and consumption in the whole process of social reproduction. The consequence was that the entire economy was that in a predicament.

During the period of readjusting the national economy, overall balance was duly stressed once again. While drawing up plans and making arrangements for the use of funds and distribution of materials, consideration was given to agriculture, light industry and heavy industry, in that order. Simple reproduction was placed before expanded reproduction,

and arrangements were made first for the needs of the market and production of the current year and then for capital construction if conditions permitted. In capital construction, efforts were first made to fill up the gaps, and in production the variety and quality of products were stressed rather than quantity. These measures helped put an end to the serious disproportion between the various sectors of the national economy.

With such a balance, development might be slower but could proceed at a solid basis. This could mean a sustained growth and actually a faster speed in the development of the national economy.

(4) In carrying out socialist construction, it is necessary to give play to the proper role of market regulation under the guidance of the state plan.

In China where the socialist public ownership holds the predominant position, it is necessary to practise the planned economy in order to regulate the contradictions between social production and social needs, to give overall consideration to the interests of all quarters concerned and to make rational use of the limited manpower, financial, material and natural resources. All economic activities must be put under the guidance of the unified state plan.

But during the stage of socialism when the different sectors of the economy and the principle of distribution "to each according to his work" have not been abolished, commodity production will continue to exist and develop. In a large country like China where production is backward and development is uneven in the various regions, it is all the more necessary to give full play to the role of market regulation under the guidance of the state plan so as to better meet the needs of different quarters.

During the three-year "great leap forward" movement when the "left" mistaken ideology exerted great influence, the plan which was incomplete and without an overall balance and changed from time to time did not play its real role as a guide. Moreover, with the state-owned commercial undertakings monopolizing the purchase and marketing of commodities, the requisition of collective property and materials without compensation and the institution of the supply system in some areas, commodity exchange was virtually abolished and the role of market regulation was stifled.

After 1961, however, changes began to take place. The different economic sectors and diverse channels of commodity circulation were restored under the leadership of the state-owned commerce; rural fairs were

reopened in addition to fairs in some big and medium-sized cities; except for grain and cotton which were still placed under the state's planned purchase and marketing, the purchase of fixed amounts (or at negotiated prices) of all other farm products by the state was practised according to different conditions in different places. A flexible price policy was adopted accordingly; and the farmers were allowed to sell their surplus farm produce after fulfilling their contracts.

These measures helped enliven the rural economy and interflow between urban and rural areas, improved supply in the cities and promoted the restoration of production. But at that time, these measures were not summed up and affirmed theoretically. So when speculation and other problems surfaced again, both urban and rural fairs were curbed, thereby adversely affecting the economy which had just shown signs of recovery.

Practice has proved that if we relied solely on the state plan without giving play to the role of market regulation and put everything under rigid control, or if we paid attention only to market regulation without stressing the guiding role of the state plan and let the law of value decide everything, we would be doing harm to the socialist economy.

In the unified socialist market, the state market is the main body, supplemented by state-led free markets within certain limits. This is an important characteristic of China's socialist planned economy, and it is also a valuable experience gained in this period.

(5) To speed up socialist construction, it is necessary to do our level best to improve the economic results.

The question of economic results or efficiency is a question of paramount importance in socialist construction, and the principle of practising economy is a basic principle of the socialist economy. The speed of development is inseparably linked with economic results; only when we succeed in achieving the maximum results from labour with the minimum consumption of social labour (including material and living labour) can we increase national income to the maximum, steadily improve the people's livelihood and rapidly accumulate funds for construction. Only in this way can there be genuine high speed.

During the "great leap forward" period, there was the tendency to blindly pursue unrealistic strategic goals and stress high speed one-sidedly. There was even the slogan that "in appraising something, attention should

be paid to its political rather than economic results." As a consequence, large numbers of small and indigenous enterprises which consumed a large amount of fuel and materials but produced products of poor quality were set up. Mass movements were launched from time to time and rules and regulations were thrown to the wind and economic accounting was done away with. Little attention was paid to economic results in production and construction. The result of all this was a great increase in the amount of waste and substandard products, the overstocking of materials and enormous waste of manpower, material and financial resources. Moreover, the quality of many engineering projects was so poor that they had to be rejected.

During the readjustment period, apart from striving to readjust the proportion between the different sectors of the economy, the government resolutely closed down all enterprises which consumed too much materials and produced poor-quality products; the building of projects which were poor in quality was also stopped. In addition, over-staffed enterprises were streamlined, enterprise management was improved, rules and regulations were drawn up and enforced, and the necessary procedures in capital construction were strictly followed. Thus the highest ever technical and economic targets were achieved leading to the rapid restoration and development of the entire national economy.

(6) To boost economic growth, it is necessary to give full play to democracy and correctly handle the contradictions among the people.

In socialist society, the contradiction between the super-structure and the economic base remains one of the basic contradictions. However, the socialist society differs from all class societies in which there is exploitation of man by man. With the change of the economic base, although class struggle still exists in certain spheres, the correct handling of contradictions among the people has become the main content of the political life of the state.

In 1957 Mao Zedong put forward the theory of the correct handling of contradictions among the people. During the rectification movement in 1957, the method of "unity - criticism and self-criticism - unity" was applied to correct the bureaucratic style of work, sectarianism and subjectivism among some cadres and to handle problems existing in socialist transformation and construction. Good results were achieved.

However, in the anti-rightist campaign in 1957, the scope of struggle was enlarged. This was followed by the anti-right deviation movement in 1959. These movements not only wrongly criticized and attacked a number of people but also encouraged the tendency to divorce from reality and the massed, thereby adversely affecting economic work.

If those people who were "against rash advance" and their ideology had not been criticized again and again, the ideas and acts of over-anxiety for success would certainly have met with resistance and the "great leap forward" movement would not have been carried out in such a fanatic way, to say the least. If pressure had not been imposed on the farmers and the cadres, it would have been difficult to launch an all-out movement to set up people's communes. If it had not been decided at the Lushan Conference to launch the "anti-Right opportunist struggle" throughout the country, the mistakes of the "great leap forward" and the movement for people's communes could have been gradually corrected in 1959. And if Ma Yinchu's population-control theory and Sun Yefang's theory on attaching due importance to value and profits had not been wrongly criticized, the management of China's national economy would definitely have improved considerably.

During the three years of economic difficulties (1959-61), the government once again emphasized the importance of socialist democracy. At the enlarged working conference convened by the Party Central Committee in 1962, Mao Zedong stressed the strengthening of democratic centralism. Before and after the conference, Mao Zedong conducted the screening and rehabilitation of the overwhelming majority of people who had been wrongly criticized and punished during the "anti-Right deviationist" struggle. This played an important role in uniting the people of the whole country to strive together to overcome the difficulties and do a good job in readjusting the economy.

The historical experience, both positive and negative, gained during this period is of major significance in guiding socialist construction. However, it is not easy to really understand and learn from these experiences and lessons. In the later stage of the readjustment period when the economic situation gradually improved, the "left" ideology reared its head again and inflated during the "cultural revolution," which began in 1966, plunging the national economy once again into a new and sorry plight.

Part IV

The National Economy in the "Ten Years Of Turmoil" (1966-1976)

XXII "Cultural Revolution" Upsets Economic Development

Section I Excellent Situation in the First Half of 1966

The year 1966, the first year of China's Third Five-Year Plan for the Development of the National Economy, saw the start of the "great cultural revolution." China's national economy was developing with great vigour on the eve of this movement.

Indeed, our national economy continued to forge ahead despite the fact that class struggle as the key link had already been adopted as the Party's basic line at the Tenth Plenary Session of its Eighth Central Committee held in September 1962 and that the movement of socialist education was being unfolded bit by bit in both urban and rural areas. This continued economic progress was possible because the Party's "leftist" mistakes by that time had not yet become so widespread as to sway every field of endeavour, and, in the field of economic work, we were still adhering to the correct policy of "readjustment, restructuring, consolidation and improvement."

In the three years 1963-1965, both industrial and agricultural production was picking up fast. The nation's total value of industrial and agricultural output grew by 9.5 percent in 1963, by 17.5 percent in 1964 and by 20.4 percent in 1965; it was 159.9 percent of that of 1957, that is, up by nearly 60 percent. Compared with 1957, the total output value of agriculture grew by 9.9 percent in 1965; that of industry, by 98 percent.

Financially, the state, too, had extricated itself from the predicament of continued, heavy deficits, and, beginning from 1962, revenue and expenditure were in balance with some surplus. There was a substantial increase in the supply of consumer goods on the market and some improvement in people's livelihood. Our cultural, health and educational undertakings also made a fairly quick recovery and rapid progress and there were marked achievements in science and technology. All this had laid down a solid foundation for the further development of our national economy.

In the first half of 1966, compared with the corresponding period of the previous year, the nation's total industrial output value was up by 20.3 percent; steel, up by 20.7 percent; raw coal, 12.6 percent; crude oil, 28.4 percent; electricity, 20.3 percent; cotton yarn, 15.6 percent; chemical fertilizer, 41.8 percent. Although many areas in the country had been seriously hit by drought, there was a fairly large increase in the yield of food crops. Livestock breeding, too, had made further progress. The state's budgeted investment in capital construction grew by 21 percent and the number of large and medium-sized projects built or partially built increased by 83 percent; the total volume of retail sales expanded by 11.6 percent; financial revenue was 1.4 billion yuan more than expenditure. The reserve of major goods and materials was going up again after a fall in the previous years. During this period, both the technical and economic indices of practically all the nation's industrial products had reached the highest level since the founding of the People's Republic.

Back at the end of 1964 at the Third National People's Congress, Premier Zhou Enlai, on behalf of the Party Central Committee, brought up the idea of building the country into a strong socialist power in a not too long historical period with modern agriculture, modern industry, modern national defence and modern science and technology, to catch up with and overtake the world's advanced level.

Fulfilment of this task was envisaged to begin with the Third Five-Year Plan and to take place in two steps. Step one, to build up an independent, more or less integrated industrial system and national economic system. Step two, to bring about full-blown modernization of agriculture, industry, national defence and science and technology for our economy to forge ahead at the world's foremost ranks.

It was with such an idea in mind that we began to study and draw up the Third Five-Year Plan in 1964. At first the principle and task laid down was to develop agriculture, light industry and heavy industry, and in that order, with the view of solving basically the problem of feeding the population and providing them with clothing and things for daily use at a not very high standard, while paying equal attention to building up our military muscle for national defence.

Later, in view of Washington's escalation of the war of aggression against Viet Nam, the Party Centre put forward the strategic principle of "be

prepared against war, be prepared against disasters and do everything for the people." The draft of the Third Five-Year Plan presented in September 1965 was accordingly revised to lay emphasis on inland construction with a view to gradually changing the industrial distribution by concentrating on the construction of the basic industries, communications and transportation facilities in the interior so that it may begin to take shape as our country's strategic rear.

The main targets set at that time were: the average rate of growth of the total industrial and agricultural output value in the said five years would be 9 percent; state investment in capital construction would total 85 billion yuan; grain output would reach 220 to 240 million tons by 1970; cotton, 2.2 to 2.4 million tons; steel, 16 million tons; raw coal, 280 to 290 million tons; crude oil, 18.5 million tons; electricity, 110 billion kwh; volume of railway freightage, 700 million tons.

This plan, which laid emphasis on changing the regional distribution of industries and aimed at speeding up the construction of inland's basic industries, was, from the standpoint at that time, quite necessary, and in setting the main targets we had left some leeway.

Much attention was also paid to such problems as the growth of agriculture and population, problems that have an important bearing on the national economy. In March 1966, for instance, the party Central Committee and the State Council jointly decided to set up an Agricultural Group for eight northern provinces, (municipality and autonomous region) with a plan to gradually improve agricultural production in these areas; the group was headed by Zhou Enlai himself.

At the same time, Mao Zedong proposed to make great efforts to bring about in the main mechanized farming in the next 15 years and opined that accumulation by the state should not be too large, because we must bear in mind that there was the part of populace who up to now still did not have enough food, enough clothing and bedding, because we must store up food grain separately to make preparations for war and against natural disasters, and because the local authorities needed accumulation of funds for enlarged reproduction.

In January 1966, the central authorities approved the Ministry of Public Health's report on family planning, stating that the nation's population by the year 1970 should be controlled at a figure below 800 million, for if the

present natural rate of population growth of 27.8 per thousand was allowed to continue, this would cause a great deal of trouble to the socialist construction as a whole. The local authorities were, therefore, told to strive to continue to reduce the population growth by a wide margin in both cities and the densely populated countryside in the spirit of the State Council's December 1962 directive on promoting family planning in all seriousness.

With such an excellent economic situation and such a strategic principle as described in the foregoing, it was entirely possible to bring about a new high tide in our national economy and our socialist construction. But, alas, there came the "great cultural revolution," which upset the normal progress of the national economy and impaired the excellent situation that had come about only after many years of hard struggle by the whole nation.

Section II Disruption of the National Economy and Damages at the Initial Stage of the Movement

The "cultural revolution" initiated by a leader labouring under a misapprehension and capitalized on by counter-revolutionary cliques; led to domestic turmoil and brought catastrophe to the Party, the state and the whole people.

Mao Zedong's main argument for initiating the "cultural revolution" was as follows: According to him, many representatives of the bourgeoisie and counter-revolutionary revisionists had sneaked into the Party, the government, the army and cultural circles, and leadership in a fairly large majority of organizations and departments was no longer in the hands of Marxists and the people; that Party persons in power taking the capitalist road had formed within the Central Committee a bourgeois headquarters which pursued a revisionist political line and organizational line and had agents in all provinces, municipalities and autonomous regions, as well as in all central departments; that since the forms of struggle adopted in the past had not been able to solve this problem, the power usurped by the capitalist roaders could be recaptured only by carrying out a great cultural revolution, by openly and fully mobilizing the broad masses from the bottom up, to expose these sinister phenomena.

The Enlarged Meeting of the Political Bureau of the Party Central Committee in May 1966 and the convocation of the 11th Plenary Session of

the Eighth Party Central Committee in August of the same year marked the all-round outbreak of the "cultural revolution."

In May 1966, the Political Bureau of the Party Central Committee called an enlarged meeting to repudiate the so-called anti-Party clique of Peng Zhen, Luo Ruiqing, Lu Dingyi and Yang Shangkun, which in point of fact never existed at all, and removed them from their posts as members or alternate members of the Secretariat of the Party Central Committee.

On May 16, the meeting adopted the Circular of the Central Committee of the Chinese Communist Party.

On May 18, Lin Biao, then Minister of Defence, waxed eloquent at the meeting to play up the cult of personality, which fully gave up to the world his wild ambition of trying to seize Party and state power.

At the end of May *Renmin Ribao* (People's Daily) carried an editorial entitled "Away with All Ghosts and Monsters" vowing to carry out a struggle between restoration and counter-restoration, to crack down on experts, scholars and academic authorities and disgrace them.

On June 2, *Renmin Ribao* published the text of a big-character poster put up by Nie Yuanzi, a faculty member of Beijing University, attacking the university Party committee and the Beijing municipal Party committee. This big-character poster was, however, lauded by Mao Zedong as "the nation's first Marxist-Leninist big-character poster" in a bid to stir up a tidal wave of students' "rebellion."

In August 1966, at the 11th Plenary Session of the Eighth Party Central Committee, Mao came up with a statement entitled "Bombard the Headquarters—A Big-Character Poster of Mine." It accused Liu Shaoqi and Deng Xiaoping of exercising bourgeois dictatorship and called on the public to "bombard" the non-existent, so-called Liu-Deng bourgeois headquarters.

The plenum also adopted the Decision of the Central Committee of the Chinese Communist Party Concerning the Great Proletarian Cultural Revolution, calling on the masses to arise and stage a revolution on their own through the "four big means," namely, speaking out freely, airing views fully, holding debates in a big way and writing big-character posters.

In response to the call, many college and middle school students in various parts of the country rose to "rebel" and started founding "Red Guards" organizations.

On August 18, Chairman Mao Zedong mounted the Tian An Men rostrum to receive the Red Guards, students and teachers from all parts of the country, and later, seven times in succession, receiving altogether more than 13 million.

The Red Guards and young students at that time not only took to the streets to destroy the so-called old ideas, old culture, old customs and old habits, but also made random attacks on those who they thought to be "monsters." They travelled to different parts of the country to make mutual contacts, to light up the so-called "flames of rebellion" and set up "revolutionary organizations" with strange "revolutionary" names they fancied. They not only destroyed a large number of monasteries, cultural relics and places of historical interest, but also disrupted the stability and order of society as a whole.

Large numbers of leading cadres of the Party and government organs at all levels were denounced and attacked so that these organs were virtually paralysed or partially paralysed.

The controversy over the relationship between politics and business in the spring of 1966 produced adverse effects first on our economic work.

At the National Conference on Work in Industry and Communications and the National Conference on Political Work in Industry and Communications held between January and March 1966, Deng Xiaoping made a point of declaring that politics should give command to business matters, but the former must find expression in production.

Lin Biao, however, put the *Jiefangjun Bao* (Liberation Army Daily) up to carry many lengthy leading articles on what he called giving prominence to politics, preaching his viewpoint that "giving prominence to politics means grasping the very thing that will grasp everything else" and that "politics determines everything else."

As a result, Lin Biao's high-faluting talk about politics began to spread far and wide and it became a common practice in society to allow people only "to make revolution" and oppose any effort to engage in production. This had a far-reaching damaging effect on our economic work.

By the third and fourth quarters of 1966, more and more people began to be involved in this political movement, which produced even more adverse effects on such economic branches as communications, industry, capital construction and commerce.

Between August and November 1966, Red Guards in their tens of millions swarmed to Beijing from all parts of the country and the state had to bear the cost of their travels, board and lodging; the Red Guards also travelled to other parts of the country to make mutual contacts. This radical increase in the volume of passenger haulage, while causing strains on transport, also reduced the capacity of freight haulage, with the result that transport of many goods and materials were held up.

According to an estimate made at the end of that year, the railway departments alone failed to handle about 10 million tons of goods and materials (mainly coal, timber, cement, steel products, materials for building mines and salt) ready for shipment mostly for areas south of the Changjiang River and for inland construction. Four thousand and five hundred workers on the construction site of an ore dressing plant of the Panzhihua Iron and Steel Base had to remain idle because the materials for construction did not come in time. Motor transport in city and countryside were strained and water transport and harbours too were held up, with 140,000 tons of goods piling up in Shanghai Harbour and another 140,000 tons in Guangzhou Harbour.

Under the impact of the "cultural revolution," it was impossible to conduct production in a normal way and the process of production was affected at varying degrees. By the end of that year, about five to ten percent of the industrial enterprises found their leadership paralyzed. Leading personnel in charge of the various business departments in various provinces, were either preoccupied with the movement and meeting the "revolutionary masses" or under attack, no longer in a position to pay much attention to conducting production.

In industrial production, problems like poor maintenance of machinery and equipment, growing number of accidents, inferior quality of the products, a few young workers and apprentices staying away from work without leave etc. began to crop up. Although some of these problems that came up in industrial production in the second half of the year may not necessarily affect production immediately in that very year, they were harmful to production in a long run.

Economic results of capital construction were also poor and became poorer still. In 1966, the newly added fixed assets were two billion yuan less in value than that of 1965, while the rate of fixed assets handed over for use

also dropped from 93.6 percent in 1965 to 70.4 percent; the rate of large and medium-sized projects completed and going into production went down from 22.9 percent to 18.1 percent.

Economic branches like commerce, foreign trade, post and telecommunications, and banking, too, were affected in varying degrees. It may be recalled that when the Red Guards started sweeping away the "four olds" (*q.v.*), many traditional merchandises, brand-name products, and other articles people were fond of were banned and consigned to limbo. In August 1966, the leading department store in Beijing had to suspend the sale of more than 6,800 kinds of merchandises, which were said to be "undesirable." This means that 22 percent of a wide variety of goods it had been selling were banned. By "undesirable," it meant things like cosmetics, ornaments, articles bearing foreign trade marks and figurines of ancient scholars and beauties. The Red Guards in those days even considered interests due to private individuals' bank deposits as a trace of capitalism and they actually proposed to stop such payments.

Educational undertakings, of course, bore the brunt of attack. The enrolment system and examinations in the institutes of higher learning were dismissed as "judging students' qualifications by their marks only" and "a sign that bourgeois intellectuals were still running these institutes." In those days, while all schools, colleges and universities suspended classes and stopped enrolling new students, a large number of Party and administrative officials in the academic and educational circles were falsely accused of opposing the Communist Party, opposing socialism and opposing Mao Zedong Thought; many professors, experts, school teachers were branded "reactionary academic authorities" subject to humiliation and persecution. They were paraded through the streets and wantonly beaten up, causing either deformity or death, their homes ransacked. Now the training of personnel for various professions and intellectual development are two important conditions indispensable to economic construction. Ruining the educational undertakings certainly had immediate and far-reaching adverse effects on the development of the national economy.

The "cultural revolution" at its initial stage, however, generally speaking, only partially affected the 1966 economy. At its inception, turmoil was found mostly in the realm of the superstructure and it did not affect the economic departments, especially those at the lower levels, until the last quarter of the year.

In October 1966 Lin Biao declared that the "cultural revolution" in military academies and schools would be carried out without the leadership of the Party Committees there. This caused the various other departments and regions in the country, including the industrial and communications departments, to follow suit, disowning their Party committee's leadership. Chaos began to reign the industrial enterprises as well.

To cope with the situation, Premier Zhou Enlai instructed a department concerned under the State Council to draw up in November 1966 Regulations Governing the Great Cultural Revolution in Industrial and Communications Enterprises, which emphasized that "cultural revolution" in these departments must be carried out by stages and by groups under the leadership of Party committees there. The regulations further stipulated that the eight-hour workday should remain unchanged and revolutionary activities be carried out only after work to ensure that production go on as usual.

Lin Biao, however, at a session of the Standing Committee of the Party Centre's Political Bureau, spoke against these regulations and alleged that there was right deviation in the industrial and communications departments.

On December 9, 1966, the Party Central Committee issued a ten-point regulation (draft) on grasping revolution and promoting production, which ruled out the idea of carrying out the movement under the leadership of Party committees and provided that workers would discuss how to put the leadership on a sound basis or elect a new one, that workers had the right to set up "revolutionary organizations," and that workers may visit each other to establish mutual contacts.

This new draft regulation, however, had to retain the clause on an eight-hour workday and the one stating that revolution be carried out after work. This explained why the economy in 1966 as a whole still registered a considerable increase and why all productive units had fulfilled or overfulfilled state plans, although the turmoil was producing many adverse effects at its very beginning.

The total output value of industry and agriculture in that year went up to 232.7 billion yuan, 10.2 percent more than the planned figure for the fiscal year, and a 17.3 percent increase over the previous year.

The total output value of agriculture was 64.1 billion yuan, overfulfilling the planned figure by 6.8 percent, an 8.6 percent increase over

the previous year. There was a considerable increase in the output of the major agricultural products with food grain registering a 10 percent increase over that of the previous year and cotton a 11.4 percent increase.

The total industrial output value overfulfilled the planned figure by 11.5 percent, or 20.9 percent more than the previous year. The growth of the major industrial products increased by a fairly wide margin, with steel output reaching 15.32 million tons, a 25.3 percent increase over the previous year; crude oil, 14.55 million tons, a 28.6 percent increase; raw coal, 252 million tons, an 8.6 percent increase; electricity, 82.5 billion kwh, a 22 percent increase; cotton yarn, 8.62 million bales, a 20.4 percent increase; chemical fertilizer, 2.409 million tons, a 39.6 percent increase.

The amount of budgeted investment in capital construction fulfilled was 17.83 billion yuan, 2.4 billion yuan more than the previous year; railway and road freightage registered an increase of 11.9 and 7.2 percent respectively over the previous year; the total volume of retail sales amounted to 73.28 billion yuan, a 9.3 percent increase; state financial revenue ran up to 55.87 billion yuan, 24.4 percent more than the previous year and expenditure amounted to 54.16 billion yuan, resulting a favourable balance of 1.71 billion yuan.

XXIII "Full-Scale Civil War"

The "cultural revolution" continued to rage in 1967 and 1968. There appeared on the national scene a political situation of "overthrowing everything" and "a full-scale civil war." The national economy had reached a stage of acute deterioration that promised disastrous aftereffects.

Section I Great Upheaval in the Political Situation

Beginning from Shanghai in early 1967, a storm to wrest power from the "capitalist-roaders" rapidly swept the various regions and departments

throughout the country. Party and government leaders at all levels were toppled *en masse*; the mass organizations in various places were divided into two opposing camps, which frequently resorted to violence; anarchist ideas poisoned people's minds — politically the whole country was plunged in utter turmoil.

The development of the "cultural revolution" in these two years was characterized by the following features:

1. Spreading from the realm of the superstructure to the economic realm throughout the country. It was put forward at the beginning of 1967 that an all-round class struggle would be launched and that the "cultural revolution" was to be extended from government offices, schools and the cultural circles to factories, mines, enterprises and the countryside. The broad masses of workers and farmers were thus all involved in this movement.

2. The "four big means" (speaking out freely, airing views fully, holding debates in a big way and writing big-character posters) leading to the seizure of power, and the "cultural revolution" developing into a "political revolution."

In January 1967, Zhang Chunqiao, who became a deputy leader of the central cultural revolution group*, and Yao Wenyuan, a member of the group, travelled from Beijing to Shanghai, where they staged a struggle to take over the political power there. Rebellious masses elsewhere in the country, following their example, rose to "seize power." But because the new leading organs — revolutionary committees — were in the long throes of birth, the situation for quite some time grew out of hand, which aggravated the state of anarchism. The years 1967 and 1968 were the worst of the 10 years of turmoil.

3. From struggle in words to struggle resorting to violence.

In July 1967, Jiang Qing raised the slogan of "attacking the enemy with words but defending oneself by violent means." This triggered off large-

*This group was first mentioned at the enlarged session of the Political Bureau held in May 1966 and its inauguration was officially announced on May 28. The head of the group was Chen Boda, who had two deputies, Jiang Qing and Zhang Chunqiao; Kang Sheng was advisor to the group, whose members included Wang Li, Guan Feng, Qi Benyu and Yao Wenyuan. Nominally, it was under the control of the Standing Committee of the Political Bureau but in fact it gradually replaced the Central Political Bureau and the Secretariat of the Party Centre to become the de facto mechanism in command of the "cultural revolution."

scale fighting in many parts of the country, which became increasingly intense with each passing day and by 1968, in places where such fighting was extremely fierce, people not only used rifles and guns, built fortifications, set up check-points and strongholds and formed professional combat groups, but, manipulated and incited by a few bad elements, also robbed banks, warehouses, goods and materials for foreign aid, blew up railways and bridges, seized arms and munitions, and forcibly broke into the offices and barracks of the People's Liberation Army. Criminal acts of the like took place without letup.

4. From exposing and criticizing the wrongs of the leading personnel at all levels to toppling them all.

The 1966 upheaval, besides criticizing the so-called bourgeois headquarters, directed the spearhead of struggle at the so-called reactionary bourgeois line in the Party and government organs. The following year, 1967, a large number of Party, government and military leaders of the central and local authorities were toppled; the Central Political Bureau and most of the leading members of the State Council were forced to "step aside"; local Party and government organs at all levels were paralyzed or partially paralyzed. Lin Biao and Jiang Qing and their followers immediately took this opportunity to take over a major part of the Party and state power. For quite some time, in actual fact, it was only Premier Zhou Enlai and a few others in charge of the central authorities, who tried their very best to conduct the nation's economic work under most trying conditions.

At a briefing at Huairentang Hall in Beijing's Zhongnanhai, where the Party centre and the State Council are based, some member of the Political Bureau and the Military Commission, including Tan Zhenlin, Chen Yi, Ye Jianying, Li Fuchun, Li Xiannian, Xu Xiangqian and Nie Rongzhen, strongly criticized the devastating actions of the "cultural revolution." They ran into a head-on debate with Kang Sheng, Chen Boda and Zhang Chunqiao, raising the following questions: Should Party leadership be retained or abandoned? Is it alright to topple each and every veteran cadre? Is it not necessary to maintain stability in the armed forces?

The debate was later slanderously described by Lin Biao and Jiang Qing as the "February adverse current" and with this as an excuse they had all the veteran cadres toppled.

In November 1971 Mao Zedong had these wronged veteran cadres

involved in the so-called "February adverse current" rehabilitated. In 1976, after the downfall of the counter-revolutionary clique headed by Jiang Qing, the Party Central Committee made a decision to declare that there never was such a thing as the "February adverse current."

Section II Sudden Deterioration of the National Economy

Mao Zedong at first looked to the great upheaval in the nation's political situation as a sign indicating that the masses had been fully aroused. In fact, this great upheaval had upset public order, production order and working order in the country, ruined the excellent situation brought about by the readjustment of the national economy after several years of hard struggle. The national economy was now in great disorder.

To begin with, organs steering or controlling economic affairs were in the main paralyzed and the national economy was in fact left to take a course without any planning.

The planning arrangements for the fiscal year 1967 were subjected to the National Conference of Planning, Industry and Communications held at the end of 1966 for deliberations but the central authorities had never examined nor approved these arrangements. In a chaotic situation, it was impossible to inform the local authorities of these arrangements at meetings at various levels as was the practice in the past. So the conference decided that different tasks in the plan may be entrusted to different localities, trades or even to factories separately. But, by late February 1967, no such arrangements had ever been made with the various regions with the exception of Shanghai.

The development of events in the first few months of 1967 already made it clear that this plan could never be put into effect. So at the National Conference on Production and Supply held in June, an announcement had to be made to declare that the planned targets for the year, if unfulfilled, may be brought forward as targets for the following year. For the same reason, orders for products, too, were not placed according to the planned targets.

Besides, the paralyzed statistics offices had failed to produce the annual or basic statistical data and reports. Because things were in such confusion, that it was impossible to work out a plan for 1968, which became the only year without a plan for the national economy ever since planned economy was introduced to this country.

With the economic commissions and business departments at all levels paralyzed, it was extremely difficult to give centralized leadership to day-to-day production arrangements and other business matters. In September 1967 the State Council set up a working group in charge of industry and communications, under which was an office on duty to study and handle problems in industrial production and communications and transport that needed immediate attention. But this group and the office under it actually never did anything to help.

Another problem was that many economic policies, regulations and rules that had been proved to be effective had been either abandoned or ignored.

Over the years, we had in economic construction properly worked out a set of economic policies, regulations and institutions and, in particular, some specific policies based on the experience accrued in the period of readjustment in accordance with the specific conditions at that time. These policies subsequently became regulations for work in the various fields of endeavour, which, together with measures in industrial management, such as the personal responsibility system in production, labour discipline, quality control, safe operations, were all dismissed as "revisionist trash" or a "capitalist comeback."

The system under which a director is held responsible for production in his factory under the leadership of its Party committee and the system under which the chief engineer is held fully responsible for technological matters in his enterprise were said to be "a relinquishment of Party leadership to encourage experts to run factories," which, therefore, meant the exercise of "bourgeois dictatorship." The call for improving economic results of the socialist enterprises and making more profits for the state was thus dismissed as "thinking of nothing but profits"; the measures acting upon the principle of "to each according to his work" in the wage system, too, was denounced as "giving people material incentives."

Confounding right and wrong in such a way naturally brought confusion to industrial management with the result that the quality of products and costs of production were left unheeded and labour discipline relaxed. There were even such criminal acts as sharing out among private individuals the circulation fund, accumulation fund and welfare fund of the collective economic units, wantonly felling trees belonging to the state or the collectives, forcibly occupying houses owned by the state and taking away public

property for private use, violating the financial regulations and holding up tax levies or profits that should be handed over to the state.

Now, as we all know, communications and transport as well as the coal industry are a vanguard of or a prerequisite for the development of the national economy; they are of great importance to the normal operation of the other economic departments. The years 1967 and 1968 saw a jam in communications and transport and a drop in coal production, which upset the order of the national economy as a whole.

In communications and transport, mainly railway transport, had all along remained strained. In January 1967, coal carried by railway transport was 3.8 million tons less than planned and in February only about an average of over 30,000 railway carriages were loaded with coal. By the end of April, due to fighting taking place on a large scale along the railway lines, the daily average number of loaded carriages plummeted, only about 29,000 carriages in mid-July and 19,000 in September, or 46 percent of the planned number of carriages to be loaded per day.

Due to fighting between different factions, many sections of the Beijing-Guangzhou and the Tianjin-Pukou Railways, of the railways in Guangxi and in the south Jilin in the northeast were either closed to traffic or were open to traffic off and on, and, in some places, railway traffic was open in daytime and closed in the night; in still other places, railway tracks were dismantled and water tanks destroyed. Freight and military trains were often plundered.

To restore order on the railway lines, the central authorities had to issue on five occasions orders and notices for this purpose — on June 1, August 10, December 2 of 1967 and on February 6 and July 3 in 1968.

Meanwhile, water and road transport were not safe either. At the port of Dalian, eight cargo ships were plundered. In July and August 1967, there were over 100 ships in the harbours having no stevedores to unload them. Short distance transport also came to a halt.

The failure to fulfil the plan in transport due to blocked traffic, especially failure to ship such major materials as coal, oil, timber and food grain to their destinations, posed a direct menace to production, construction and people's daily life. Originally, it was planned to send to Shanghai, Jiangsu and Zhejiang provinces and other places in east China 2.9 million tons of coal in June 1967, but due to the interruption of railway transport in the Xuzhou area, this plan was poorly carried out in the first half of the month;

the volume of maritime transport along the sea coast in the north and water transport on the Changjiang River was only 36 percent of the monthly plan. Operations of communications and transport in Liuzhou area, Guangxi, was also abnormal. This affected the shipment of materials for construction in Yunnan and Guizhou and goods for foreign aid.

Coal production had been on a steady decline since early 1967. All mining bureaus directly under the Coal Ministry produced in January an average of only 450,000 tons of coal daily, or, on an daily average 80,000 tons less than planned, or nearly 50,000 tons less daily, compared with the corresponding period in the previous year. By the first 10 days of February, the output dropped to 403,000 tons and again to 388,000 tons in the second 10 days of the month.

Of the 11 mines under the Jixi Mining Bureau, for instance, due to the fighting which took place in late April, only three were still in operation and, as a result, daily output plummeted from 21,300 tons in early April to 6,000 tons in early May.

On May 13, the military took over six mining bureaus under the direct control of the Coal Ministry and at the end of June, it took over 68 more, but failed to bring the situation under effective control. The average daily output of the mining bureaus dropped to 365,000 tons in the first 10 days of July and to 348,000 tons in the second 10 days of the month, and again to 228,000 tons on August 15, 44 percent less than the daily average in June before the take over.

There was an acute shortage of coal supply, which meant units in need of coal in production could not get their supply as planned; coal reserve sank so low that it was below the level allowed for normal operation. The metallurgical department at the end of January 1967 found their coal in stock only enough to last nine days for their coking plants. By November the same year, only 300,000 tons of coal were in stock for coking, which was just the amount one single enterprise in Anshan Steel alone was supposed to keep in stock. Coal shipped to Anshan Steel in May was only 25 percent of what was to be supplied according to plan; its coal reserve for coking in the first 10 days of June would last only seven days, whereas the normal amount of coal reserved for this purpose should be enough to last more than 20 days.

By the end of January 1967, coal reserve in some thermo-power plants was only enough to last less than 10 days. In November the same year, coal reserve in the electric power networks of the northeast and east China could

last only five to six days. In some cities, at one time, coal reserve dropped to a dangerously low point. Coal available for the market in December 1967 was only 11 million tons, even 2.5 million tons less than 1960, when the amount of coal reserve was the lowest in all these years.

Shortage in coal supply, plus strained railway transport, directly affected such basic industrial departments as iron and steel and electric power, while indirectly affecting the other industrial departments.

Between early July and September 1967, average daily steel output dropped from 35,400 tons to 12,000 tons, only 26 percent of the planned figure. Electric power dropped from 223 million kwh a day to 160 million, or 60 percent of the planned daily output. Because of the short supply of coal, according to an incomplete statistics, in November 1967, 41 giant coke ovens in the nation's 18 major iron and steel complexes were merely kept warm, while others were forced to prolong the time of coking, from, in some cases, 17 to 18 hours, which is the normal length of time required, to over 60 hours.

Lanzhou's electric power system in July and August 1967 got only 10 percent of its planned coal supply so that its coal reserve went down drastically and its load dropped from 250,000 kilowatts to 170,000. All other electric power networks and power-generation systems in the country, with the exception of the Beijing-Tianjin-Tangshan network, which was more or less operating normally, had to take measures to cut down the consumption of electric power because of the drop of the load. By the end of 1967, the power network in east China cut down its supply by 16 percent, that of the northeast by 10 percent.

The daily output of synthetic ammonia in the nation's 17 key enterprises averaged only 3,087 tons in July 1967, 341 tons less than the first 10 days of the month. Huainan Chemical Fertilizer Plant had to cease production on July 12 because there was not enough power supply. The Dong Fang Hong Tractor Works, the Mining Machinery Works and the Axle Works in Luoyang, Henan Province by the end of November 1967 were on the verge of closing down because coal in stock had been drained away. Reduction of output in the machinery and building materials departments in turn affected the fulfilment of the plan for the year's capital construction.

Due to endless fighting, the shortage of coal and electric power supply and strained transport, and due to the spread of anarchist ideas, many

factories and mines ceased production and equipment there lay idle. The nation's only factory making wheel rims, for instance, had already ceased production in January 1967; 13 of the 60-odd cement kilns in the country too stopped operation. By July, with the exception of Benxi Steel and Taiyuan Steel, all iron and steel works in the country, including Anshan Steel, Maanshan Steel, Wuhan Steel, Hunan Steel, Chongqing Steel, the Great Wall and the Daye Steel Works had either stopped or partially stopped production. In Anshan Steel, four blast furnaces and 12 of its 24 open hearth furnaces were out of operation, its daily output reaching the lowest mark ever known in the past eight years. In Wuhan Steel, with the exception of two open hearth furnaces which were still in operation, all its blast furnaces, sintering equipment, coking furnaces, rolling mills and equipment for making fire-resistant materials all stopped production.

Labour discipline in enterprises was relaxed and the rate of attendance and utility rate per work hour were rather low. In January and February 1967, the rate of attendance in the nation's coal mines was only about 50 to 60 percent, or at best, 70 to 80 percent as was the case with Kai-Luan and Jingjing colliers. The utility rate of work was only four to five hours, or in some cases, only two to three hours.

Section III The Aftermath

Upheaval in the two years had produced serious aftereffects.

1. Production on the decline year after year.

In 1967, the total output value of industry and agriculture was 210.45 billion yuan, nearly 10 percent less than the previous year; in 1968, it went down by another 4.2 percent, or only 86.6 percent of the 1966 figure. Of this, total agricultural output value in 1967 was 65.1 billion yuan, a slight increase over the previous year, and 63.5 billion yuan in 1968, 2.5 percent less than the previous year, or only 99 percent of that of 1966. The total industrial output value in 1967 was 145.35 billion yuan, 14 percent less than the previous year and 138.03 billion yuan in 1968, another 5 percent less than the previous year, or only 81.8 percent of that of 1966.

The output of main industrial goods and agricultural product for the two years was as follows: grain in 1967 registered a 1.8 percent increase over the previous year, but in 1968 it was 4 percent less than in the year 1967, 2.3 percent less than 1966. Cotton more or less the same in these two years.

Compared with the previous year, steel output in 1967 dropped by 32.8 percent; coal, 18.3 percent; electricity, 6.2 percent; cotton yarn, 13.6 percent; and cotton cloth, 10.3 percent. Compared with 1967, steel output in 1968 marked another 12.1 percent decrease, only about 59 percent of the 1966 annual output; coal registered a slight increase, but was only 87.3 percent of the 1966 output; electricity, another 7.5 percent less, only 86.8 percent of the electric power generated in 1966; cotton yarn, a slight increase, but 12 percent less than the 1966 output; cotton cloth went down by another 2 percent, or only about 88 percent of the 1966 output.

In communications and transport, compared with the year 1966, volume of freightage in 1967 went down by 15.7 percent, of which, railway freightage dropped by 21.6 percent; in 1968, the volume of freightage continued to drop by 6.9 percent, of which railway freightage dropped by 2.3 percent.

The amount of budgetary investment in capital construction completed was 11.52 billion yuan in 1967, 35.3 percent less than that of the previous year. In 1968 it amounted only to 9.49 billion yuan, 17.6 percent less than that of 1967.

Labour productivity in industrial enterprises in 1967 went down by 19.2 percent, compared with 1966; by another 7 percent in 1968, compared with 1967. Only 50.6 percent of the newly added fixed assets was commissioned for production in 1967, and this rate went down to 45.9 percent in 1968, the rates in these two years being the lowest since the founding of the People's Republic in 1949.

National income also continued to dwindle in these two years; in 1967 it was 9.9 billion yuan less than 1966, a drop of 7.2 percent; and in 1968, 7.2 billion yuan less than 1967, a 6.5 percent decrease.

If calculated according to 7.9 percent, the actual average rate of growth of the industrial and agricultural output value in the 13 years between 1953 and 1965, the total output value of industry and agriculture in 1967 and 1968 should have amounted to 522 billion yuan and yet the actual output value in these two years was a mere 411.98 billion yuan, in other words, a loss of 110 billion yuan in the said two years.

2. Less financial revenue, goods in short supply on the market and poorer living standard.

In the two years of great turmoil, the state's financial revenue went down steeply year by year. It was 41.94 billion yuan in 1967, 25 percent less

than 1966. In 1968, it was 13.9 percent less than 1967, the year with 2.25 billion yuan in the red. It was only thanks to the drastic cut in spending that the total financial expenditure in 1968 was one-third less than that of 1966 and this somehow achieved an equilibrium between revenue and expenditure.

With production going down and communications and transport in a jam, there was a growing shortage of goods on the market. In the two years, the volume of total retail sales such as food grain, edible vegetable oil, pork, fresh eggs, aquatic products, cotton cloth, sewing machines, bicycles and wrist watches, went down at varying degrees. Coal supply for the market and for heating in northern cities in winter also decreased. In 1968, the national average of rationed cotton cloth for urban and rural residents was only 3 metres per person, or 2.3 metres less than in 1967. The cloth ration for the year could be even much less if we had not drawn on stock.

3. Culture and education utterly vandalized.

Ruination to culture and education during the "cultural revolution" cannot be reckoned in terms of value like the damages to economic development.

Institutes of different branches of learning and schools at different levels had all closed "to make revolution" since the start of the "cultural revolution" in 1966. Middle and primary schools were paralyzed for as long as two years. Students and teachers in many institutes of higher learning were split into two different factions antagonistic to each other and engaged in fighting frequently; their libraries, dormitories, laboratories and other facilities for teaching and studying were greatly damaged. All universities throughout the country stopped enrolling students for six years running and ceased to enrol post-graduates for 12 years; exchange of students with foreign countries, too, stopped for six or seven years. What was more, there was the talk that "It's no use to go to school" by Jiang Qing and her gang which poisoned the minds of our youth. Students, under the influence, ceased to commit themselves to studying and teachers ceased to commit themselves to teaching. Accordingly, there was no proper education for a whole generation. Educational undertakings in China were never well developed and late in 1966 there were only 417 institutes of higher learning in the country, but during the "cultural revolution," 108 of them were banned.

Both culture and art bore the brunt of attack at the beginning of the "cultural revolution," which withered up literature, drama, cinema, music, dancing, fine arts and folk art in various forms. The training of artists was virtually suspended. There was a drastic cut in the publications of books (20,143 themes in 1965 and only 3,694 themes in 1968), periodicals (790 kinds in 1966 and 22 in 1968) and journals (343 kinds in 1966 and 42 kinds in 1968). The "book with a red jacket" *Quotations from Chairman Mao* and the so-called "model operas" — Beijing opera with revolutionary themes patronized by Jiang Qing, then the cultural tsar — were the only items held in esteem and popularized for public consumption. The general public had little cultural life to speak of.

Great damages were done to science, public health, journalism and sports, with the exception of a few particular fields.

XXIV Economic Recovery

Section I Economic Recovery as a Result of a Relatively Stable Political Situation

(1) Restoring the work of planning

The great political upheaval had led to the decline of the economy year after year. It began to pick up in 1969 when the political situation at home was more or less stabilized.

For the purpose of stabilizing the political situation, Mao Zedong decided to send the People's Liberation Army to various places for military control. "Revolutionary Committees" were set up in provinces, municipalities and autonomous regions, as well as in local organs, factories and mines. This was followed by the revision of the Party Constitution at the Ninth Party Congress in early April 1969, with a provision designating Lin Biao as Mao Zedong's "heir." This enabled not only Lin Biao and Jiang

Qing, but also their followers, to get into the Party Central Committee. This, however, brought about a relatively stable political situation. Fighting between mass organizations belonging to different factions was now much less frequent than the two previous years, although they were still seriously divided and antagonistic towards each other. All this made it possible for the restoration of public order, production and work order, which helped the economy to pick up.

Premier Zhou Enlai seized this opportunity to organize the work of drawing up the national economic plan for 1969 at the end of 1968, this being his initial efforts made to bring the national economy back to the track of a planned economy.

In the light of the conditions at that time, a small group with some 30 members composed of representatives of the military, veteran cadres and representatives from the mass organizations was formed to make a draft for the plan — An Outline of the Plan of the 1969 National Economy (Draft). In the February 1969, the National Conference of Planning, which had been suspended for two years, met in the form of a forum, which discussed the Outline. Those from various parts of the country who attended the forum were told to take this draft plan home for implementation, discussion and making amendments — all to take place simultaneously.

The draft plan brought up five main tasks: One, to ensure in every possible way the publication of Chairman Mao's works, quality guaranteed, and make great efforts to develop radio broadcasting; two, to energetically develop agriculture and increase the supply of steel products for agriculture from 830,000 tons in the previous two years to 1.6 million tons; three, to strengthen with might and main the defence industry, the basic industries and inland construction; four, to make proper arrangements for light industrial production and the market, and continue to promote family planning and encourage people to get married at more mature ages; five, to take vigorous measures to promote the development of communications.

The draft plan also provided a 15 percent increase in the 1969 total industry output value over that of 1966. It envisaged that steel output would reach 16 million tons; raw coal, 270 to 280 million tons; electricity, 98,000 to 100,000 million kwh; cotton yarn, 10 to 10.5 million bales; food grain and cotton to increase by 6 and 10 percent respectively, compared with the previous year; railway freightage, 580 million tons; capital construction

investment to amount to 19.3 billion yuan; total volume of retail sales to 77 billion yuan; and financial revenue and expenditure, 57 billion yuan respectively.

There was, however, not enough research work done and not much investigation made in drawing up the plan for the year. Moreover, under the guidance of ultra-“leftist” thinking, this draft plan denounced both the people who stressed the need for “an overall balance” and the so-called viewpoint of “putting profits in command.” It also set most of the targets too high to be realistic with the intention of showing off the “achievements of the cultural revolution.”

Premier Zhou Enlai had on many occasions proposed to revise the plan and suggested to reduce the number of Mao Zedong's works and *Quotations from Chairman Mao* to be printed. He also criticized the waste in making badges with Chairman Mao's image on them. All Zhou's proposals, however correct, could not possibly be put into effect at that time.

(2) The economy begins to pick up.

Thanks to the stability of the political situation, the economy began to pick up in 1969.

Both industrial and agricultural production in that year reached by and large the 1966 level or even surpassed it. In 1969, the gross output value of industry and agriculture hit the mark of 249.55 billion yuan, a 23.8 percent increase over the previous year, or a 7.2 percent increase over 1966. Of this, the total output value of agriculture increased by 1.1 percent, or 0.2 percent more than 1966; that of industry made a 34.3 percent increase over the previous year and 9.9 percent more than 1966.

Compared with the previous year and 1966, the output of the major industrial and agricultural products was as follows: food crops, a 1 percent increase over the previous year, or 98.6 percent of that of 1966; cotton, down by 11.7 percent, or 89 percent of that of 1966; cotton yarn, a 31.1 percent increase, or an increase of 15.3 percent over that of 1966; cotton cloth, a 27.7 percent increase over the previous year, or 12.3 percent over that of 1966; steel, up by 47.5 percent, but only 87 percent of that of 1966; raw coal, a 20.9 percent increase, or 5.6 percent more than that of 1966; crude oil, 36 percent over the previous year, or 49.4 percent more than that of 1966; electricity, a 31.3 percent increase, or 13.9 percent more than that of 1966.

Compared with the previous year, railway freightage in 1969 increased

by 26.2 percent, or 96.4 percent of that of 1966; financial revenue made a substantial increase of 45.8 percent with revenue exceeding expenditure by 90 million yuan, but below the level of the 1966 financial revenue. Completion of investment made in capital construction as envisaged in the state budget registered a 75.3 percent increase over the previous year, or 93.3 percent of 1966. The volume of retail sales increased 8.7 percent over the previous year, or 9.4 percent more than that of 1966. The total volume of imports and exports was the same as the previous year, or 87.2 percent of 1966. Residents' average level of consumption got a 2.5 percent lift, or 2.7 percent higher than 1966. Compared with the previous year, average wage for workers and employees in units owned by the whole people dropped by 0.5 percent, or 2.8 percent less than 1966.

As seen from the above figures, although the total output value of industry and agriculture in 1969 was much larger than the previous year, its growth, compared with 1966, was not much, especially in the case of the total output value of agriculture, whose increase was rather insignificant.

Output of most of the major industrial and agricultural products, with the exception of oil, coal, cotton cloth and electricity, did not reach the 1966 level. Such essential products as food crops, cotton and steel, moreover, were, at varying degrees, even lower than the 1966 level.

Although both the state's financial revenue and expenditure as well as its investment in capital construction registered a marked increase, they were still not up to the 1966 level.

That year, with the exception of the output of crude oil, nearly all targets set in the plan for 1969, were not reached.

Section II Economic Progress Made in 1970

The National Planning Conference, which met between February and March 1970, discussed and drew up the Plan for the National Economy in 1970 (Draft). It was approved in September the same year by the Second Plenary Session of the Ninth Party Central Committee. The plan proposed to speed up construction of the strategic rear in the interior, to energetically develop agriculture and quicken the pace of the modernization of agriculture, to make every effort to develop the small local industries and see that every county would have as soon as possible its own farm machinery

manufacturing and repairing works to start setting up zones of economic coordination on an experimental basis, to transfer enterprises to lower administrative levels and have this done before the year was out.

The following principal measures were taken in the light of the goals outlined in the plan:

(1) Stabilizing rural policies.

Since the start of the "cultural revolution," some principal Party policies towards the countryside had been violated. In some places, the scope of such collectives and communes and production brigades was forcibly enlarged; one-sided emphasis was laid on the production of grain, which was taken as the "key link," and development of the diversified economy was contained. In many places people were told to grow more grain at the expense of the cash crops under such erroneous slogans as "let cotton farms yield food grain" or "let sugar cane plantations grow food grain." Ecological environments were impaired when lakes and ponds were filled with earth to reclaim land for cultivating grain crops. Some communes and production brigades ordered production teams under them to make contributions in grain or in cash and enlisted team members to do unpaid labour. In some extreme cases, the plots of land reserved for personal needs were taken away from the commune members and their family sideline production was banned as "a survival of capitalism."

The confusions in the rural policies thus seriously impaired the farmers' enthusiasm for agricultural production, which had reached a plateau over the years.

In August 1970 the State Council called an agricultural conference for the northern regions (embracing 14 provinces, municipalities and autonomous regions) attended by over 1,200 people. The conference made a point that the basic policies for the people's communes for the present stage must continue and be implemented accordingly; that generally there should be no change in things worked out by the central authorities years ago, such as the three-level system of ownership of the means of production in the people's commune with ownership by the production team as the basic form, and the system of plots of land for personal needs; that commune members may work on small land plots reserved for private needs and engage in family sideline production, on condition that the predominance of the collective economy was ensured; that the principle of "to each according

to one's work" must be adhered to and equalitarianism was not allowed; that production teams were free to cultivate what crops that were good for the locality; and that requisition at will of production team's services and materials must be stopped.

The conference also proposed to hasten the development of agricultural production in the northern regions where food grain was not in adequate supply, and go all out to carry out farmland capital construction; to strive to increase the supply of manure, mainly by raising more pigs; and to work for mechanized farming. Although the conference, under historical conditions of those days, did set some of the targets too high, it managed to reaffirm in unmistakable terms the Party's rural policies and put forward some measures for developing production. The conference thus played an active part in helping bring about the recovery and development of agricultural production.

(2) Overall development of inland construction.

Inland construction had been in full swing since 1970, another high tide after the first one in 1965. Of the budgetary investment in capital construction fulfilled in 1970, 55.3 percent was made in inland construction.

(3) Development of the "five small local industries" accelerated.

Support in every manner was given to the development of the five small local industries (iron and steel, machine-building, chemical fertilizer, coal mining and cement industry). The state's financial department earmarked 8 billion yuan in the next five years as a special fund to be handled by the provincial, municipal and autonomous regional authorities for the development of these key industries. Sixty percent of the profits made by the newly built "five small industries" run by county authorities would in the next two to three years be kept by the county authorities; those within the category of the "five small industries" which suffered temporary losses would get financial subsidies or be exempted for a certain period of time from tax levies or get a reduction of such levies.

Thus, under state patronage, 1970 saw a vigorous development of the "five small local industries." In this very year, nearly 300 counties and municipalities in the country had set up their own small iron and steel plants; over 20 provinces (municipalities or autonomous regions) had built up factories making walking tractors, small motor works and plants making small farm implements and their parts. About 90 percent of the counties in

the country had set up their own factories producing or repairing farm machinery.

According to preliminary statistics, the capacity of iron-smelting of those small local iron and steel plants in 1970 grew up to 2.5 times, compared with the previous year, and the output of pig iron up to 2.8 times; nitrogenous fertilizer and synthetic ammonia turned out by small chemical fertilizer plants increased by 60 to 70 percent, compared with the previous year; the output of small cement works and small chemical fertilizer plants now constituted 40 percent of the nation's total. Coal output in southern provinces produced 70 percent more than the previous year. Some underdeveloped provinces and regions now had their own textile mills, sugar refineries, and light industrial works making chemicals for daily use, metal fittings and sundry goods.

(4) Reforms in the structure of economic management and transferring enterprises to the lower levels.

An excessively centralized management of the economy gradually proved to be inadequate in meeting the needs of normal economic development at the later stage of the readjustment of the national economy. There had been talks about reforms in the structure of economic management but the idea was shelved because of the "cultural revolution."

This issue was once again put on the order of the day in 1969, now that the once chaotic situation had begun to stabilize a bit. So the principle and plan for such a reform was presented to the National Conference of Planning at the beginning of 1970.

Early in February 1969, at the Forum of National Planning, its participants had discussed the "Rudimentary Ideas Conceived by the Ministries Under the Central Government on Transferring Enterprise Management to the Lower Levels." According to these concepts, all enterprises suitable for local management should be transferred to the local authorities and placed under their management with the local revolutionary committees at all levels exercising unified leadership over these enterprises; as for the key national enterprises and undertakings, they would for the time being remain under the direct management of the central ministries concerned; scientific research and designing institutes as well as colleges and universities would be affiliated to factories and mines.

According to the June 1970 directive of the central authorities, in

carrying out the state plan, the various ministries and commissions under the State Council should correctly handle their relationship with the local authorities by seeing to it that all enterprises and undertakings under them should be transferred to the lower levels, except a few which at the moment were not suitable for such a transfer. Most of them should be completely handed over to the local authorities with only a few under dual leadership. Of those under dual leadership the majority would be mainly under the management of the local authorities, only a few mainly under the management of the central authorities. According to the directive, the transfer would be completed group after group at different stages within the year of 1970.

According to preliminary statistics compiled in August 1969, the Ministry of Chemical Industry had by then transferred about 60 percent of the 489 enterprises under it to the local authorities; the Ministry of Metallurgy had transferred Anshan Steel to the Liaoning Province, and it was now placed under dual leadership, mainly under the leadership of the provincial authorities; the Ministry of Coal had dissolved nine coal mining bureaus and the two coal trusts in east China and Helanshan; the Ministry of Petroleum had transferred 13 of its 14 colleges and schools to the local authorities.

By the end of September that year, the nine ministries under the Central Government in charge of industries and communications had transferred 2,237 of their 3,082 enterprises and undertakings to the local authorities, including such giant enterprises as Anshan Steel, Daqing Oilfield, Changchun Auto Works, Kailuan Colliery, Jilin Chemical Industries Company. They constituted 73 percent of the total, 1,412 of which were completely transferred to the local authorities; 814 under dual leadership mainly under the leadership of the local authorities and 11 under dual leadership mainly under the leadership of the central authorities.

(5) Convocation of a series of specialized conferences.

The year 1970 saw the convocation of a number of conferences of specialized trades, including a conference on cotton production, one on coal, a forum for discussing problems of the key iron and steel enterprises, a conference on increasing production and practising economy in the power industry, a forum for discussing problems of the light industry, another one discussing financial work and banking, and a conference on foreign trade

planning. These conferences helped work out plans for promoting the restoration and development of production in these trades.

Thanks to these measures, our economy developed fairly rapidly in 1970, registering not only an increase by a wide margin over the previous year but also reaching and even surpassing the 1966 level.

There was a fairly substantial growth of industrial and agricultural production on the basis of the economic recovery that took place in the previous year. In comparison, the total output value of industry and agriculture rose by 25.7 percent over the previous year. Of this, the total output value of agriculture soared by 11.5 percent; that of industry, 30.6 percent. There was also a steep rise in the output of the major industrial and agricultural products: food grain grew by 13.7 percent; cotton, 9.5 percent; steel, 33.5 percent; raw coal, 33.1 percent; crude oil, 41 percent; electricity, 23.3 percent.

In that year, the volume of railway freightage increased by 28.3 percent; the national income, 23.3 percent; financial revenue, 25.8 percent; budgetary investment in capital construction, 33.5 percent.

In 1970, both the total output value of industry and agriculture as well as the national income surpassed the 1966 level. The total output value of agriculture was 111.7 percent of 1966; that of industry, 143.6 percent; the national income, 127.6 percent. In the case of the output of the major industrial and agricultural products, with the exception of such farm produce as cotton, hemp, peanuts, sugar beet, cured tobacco, which failed to reach the 1966 level, all other products, including food grain, rapeseed, sugar cane, mulberry silk worm cocoons and tea, as well as most of the industrial goods, including steel, steel products, raw coal, crude oil, equipment, power-generating equipment, metal cutting machine tools, motor vehicles, tractors, bicycles, wrist watches, electric light bulbs, crude salt, chemical medicines and electric power, all topped the 1966 level.

The year 1970 was the last year of the Third Five-Year Plan. In the case of the main targets set for the plan (drawn up in September 1965), we had, judging from the economic level actually achieved in this year, in the main fulfilled or overfulfilled the plan. In 1970 we had gone beyond targets set for the total output value of industry and agriculture in the Third Five-Year Plan by 16.2 percent. Of this, that of agriculture was overfulfilled by 2.3 percent, which meant the fulfilment of the minimum target set; that of

industry, 21.1 percent. The plan for the output of the major industrial and agricultural products in the same period, too, had, in the main, been fulfilled: food grain, by 109.1 percent; cotton, 103.5 percent; cotton yarn, 125.7 percent; cotton cloth, 122 percent; steel, 111.2 percent; raw coal, 122.1 percent; crude oil, 165.7 percent; and electricity, 105.4 percent. The fulfilment of the volume of railway freightage was not satisfactory, only 97.1 percent of the target set in the plan. The state's financial revenues in the said five years amounted to only 82.9 percent of the planned figure. The volume of commodity supply and the purchasing power of society fulfilled the plan by 104.8 percent and 101.4 percent respectively. The number of workers and employees in premises owned by the whole people ran up to 47.92 million persons, 7.54 million more than planned. The average wage of workers and employees was 609 yuan, only 82.6 percent of the planned figure. Investment in capital construction completed in the five years amounted to 81.05 billion yuan, or 95.4 percent of the planned figure.

Section III Problems in the Economic Progress

It is true that the economy had made some progress in 1970, but such progress was very much limited because the "cultural revolution" was still going on and "leftist" thinking was still holding sway. Besides, there were quite a few problems that had surfaced in the course of the economic progress. The main ones were:

1. The scale of construction being too large and the rate of accumulation too high.

The budgetary investment in capital construction as arranged by the 1970 plan amounted to 22.8 billion yuan, actually an increase of 47 percent over the previous year. As construction went on, the planned figure for investment was exceeded again and again, so that over the year there was an additional investment running to 5 billion yuan. Capital construction investment actually spent, plus funds raised by the local authorities themselves, amounted to 29.5 billion yuan, a sharp increase of 10.9 billion yuan over the previous year. Large and medium-sized projects under construction that year numbered 1,409, 296 more than the number of projects arranged in the plan. With the abrupt expansion of the scale of

construction, there was a steep rise in the rate of accumulation, which soared from 23.2 percent in the previous year to 32.9 percent.

Capital construction at such a magnitude and so high a rate of accumulation were, of course, a strain on the economy at the level of its development at that time, and also a strain on both manpower and material resources. Most of the newly recruited 3.4 million workers in 1970 came from the countryside, and, in some places, workforce for capital construction drawn from the countryside made up about 10 to 12 percent of the total workforce in the rural districts. This resulted in a scramble for workforce between capital construction and agricultural production. As to material resources, according to an estimate made by the Conference of National Planning at the beginning of the year, the whole country in that year was short of 3 million tons of steel products, 3 million tons of cement, and over 3 million cubic metres of timber. So the only alternative was to increase imports of these items and draw on the state reserve.

2. Inland construction at too fast a pace and in too great haste, out of coordination with the development of the economy as a whole.

Construction of the strategic rear with proper concentrated efforts is of great significance to the strengthening of war preparations, to the changing of the irrational economic layout thus far, and to the development of the backward areas. But the pace of inland construction in 1970 was too fast and overhasty. The arrangements made in the plan for capital construction showed that inland construction took up about 60 percent of both the total investments in the budget and the total number of large and medium-sized projects. This was the highest percentage in all these years.

Heavy industrial construction went on at the expense of agricultural, light industrial and non-productive construction. In 1970, investment in agriculture made up only 8.4 percent of the total; that in light industry, only 3.7 percent. Both were lower than those of 1966, which was 11.7 and 4 percent respectively. Non-productive construction in 1970 had only a 11.7 percent share of the total investment (only 2.6 percent for housing construction), the lowest percentage in all these years since the founding of the People's Republic.

While laying undue emphasis on inland construction, we imposed too many limitations on investment in the developed coastal areas. This not only affected the development of the industries in the coastal areas but also, in

turn, weakened their support for inland construction. This caused disharmony between industrial and agricultural development, between the development of light and heavy industries, between the development of the coastal areas and the interior and between the development of productive construction and non-productive construction.

Overemphasis on speed led to hastily done work, causing problems to inland construction itself. For instance, the quality of the engineering projects was not guaranteed because in the course of construction the part played by experts and technicians was belittled and the scientific procedure in capital construction ignored, also because of the so-called "revolution in designing," which insisted on construction taking place simultaneously with designing. With the result, some projects, hastily built, had to be demolished and built anew.

3. Transfer of enterprises to the lower levels yielding no anticipated results.

The aim of transferring enterprises to the lower levels was to arouse the initiative of both the central and local authorities by enlarging the latter's power in industrial management. But what we did was a mere transfer of a part of the power. Nothing had been done to remove the shortcomings that were there in the structure of management for a long time, such as the management of enterprises through administrative means. So there were no marked results in the transfer.

Zhou Enlai had more than once told people under him that the ongoing transfer of enterprises to the lower levels should be carried out step by step and that they must stick it out. But due to the interference by the ultra-"leftist" trend of thought, also because people concerned were overanxious and did not make full preparations beforehand, a large number of enterprises and undertakings under the central authorities were transferred to the local authorities in a lump within a not very long period of time. Many new problems soon cropped up.

For instance, many big enterprises and mines turning out products for the whole country were also transferred to the local authorities, which were not in a position to look after them and they still had to be looked after by the central authorities on behalf of the local authorities. This brought these enterprises under multiple leadership with many new problems coming up.

Again, the transfer done in haste, had upset the existing relations of

coordination between different enterprises and places. For instance, every year Shanghai used to get 2 million tons of pig iron from Anshan Steel, Benxi Steel, Baotou Steel, Taiyuan Steel and Wuhan Steel. But after the transfer of these enterprises to the local authorities, their existing relations of coordination with Shanghai was disrupted and this affected Shanghai's industrial development.

Moreover, after the transfer, the central authorities failed to give in time its all-round guidance to the economy so that each locality set up a system of its own with a growing tendency for self-sufficiency. This resulted in blindfolded construction and overlapping construction, so serious that they caused tremendous waste.

Also, in these two years, because people laid lopsided emphasis on increasing production and the output value, there was a general retrogression of the economic results.

The aftermath of these problems became gradually evident in the development of the economy at a later stage.

XXV New Economic Readjustment

Section I The "Three Excesses"—An Aftereffect of Excessively High Targets

The Fourth Five-Year Plan for the Development of the National Economy fell within the period from 1971 to 1975.

Drawing up the plan began early in 1970. Deliberations of the Outline Programme for the Fourth Five-Year Plan (Draft) was already put on the agenda of the Second Plenary Session of the Ninth Party Central Committee held in September of that year. It was only because Lin Biao and Chen Boda had made difficulties that the session failed to discuss this draft outline programme, which was distributed among those attending the session as a

mere document for reference. Later, this draft outline programme, together with the main targets set for 1971, was sent in the name of the Party Central Committee to the local authorities for implementation.

Due to the then central authorities' overestimate of the graveness of the international situation and the danger of war, still greater emphasis was laid on "preparations for war," on the need to build up the strategic rear with concentrated efforts and each zone of economic coordination was called on to build up a system of its own to bring about a new "leap forward" of the national economy.

Lin Biao was the one who fanatically advocated "making preparations for war." "Never mind about the proportions in the development of the different economic branches! War, that's the thing which is over and above proportions," cried Lin Biao. It was precisely under the guidance of Lin's principle of "observing, checking up and carrying out everything from the standpoint of fighting a war" that the Outline Programme of the Fourth Five-Year Plan was mapped out.

It thus provided that during the period of the Fourth Five-Year Plan, the total output value of industry was to increase at an average annual rate of growth of 12.5 percent; that budgetary investment in capital construction was to hit the 130 billion yuan mark; that grain output for 1975 was to reach 300 to 325 million tons; cotton, 3.25 to 3.5 million tons; steel, 35 to 40 million tons; raw coal, 400 to 430 million tons; crude oil, 70 to 100 million tons; electricity, 200 to 220 billion kwh; railway freightage, 900 to 1,000 million tons.

This was a plan with high production targets aimed at achieving success in a hurry. Take steel for instance. If the target for steel production in the plan was to be reached, it was required to increase steel production by over 3.4 to 4.4 million tons a year, and to double the steel output in a matter of five years. This was something difficult to bring about even if things were going on smoothly under very normal conditions.

So that the tasks put forward in the Fourth Five-Year Plan may be fulfilled as much as possible, we at that time pinned hope on reforms in the economic structure. Besides the transfer of enterprises to the local authorities, which was mostly completed in 1969 and 1970, there was an urge to introduce from 1971 onwards a contract system in handling investments in capital construction, in distribution of materials and in handling financial

revenues and expenditures. This meant that the state would hand over funds, materials and equipment needed for a specific project to a local authority and entrust it with the job and if and when there was any surplus of materials and fund after the completion of the project, the latter was free to keep a share of the surplus for its own use. But, for one reason or another, this reform was introduced on a trial basis to a few projects only and was never popularized. Measures were also taken to expand the decision-making power of the local authorities alongside the introduction of a new structure for the management of planning (the local authorities playing the leading role in co-operation with the central authorities). The local authorities, given more power in economic management, were expected to display their initiative in this regard. But, unfortunately, all these steps taken had proved to be unsuccessful.

The year 1971 was the first year of the Fourth Five-Year Plan. At the end of 1970, the 1971 plan for the national economy was mapped out in the spirit of the Outline Programme of the Fourth Five-Year Plan (Draft). Since the targets envisaged in the Fourth Five-Year Plan were excessively high and were arranged in a hurry, the plan for the year 1971 naturally had to be so arranged as to ensure the "fulfilment" of these targets.

It is true that we had failed to have a real understanding of the situation at the time of drawing up the Fourth Five-Year Plan, but by the end of 1970, some problems in economic affairs had already come up for all to see. For instance, the output of our food and cash crops lagged behind the needs of industrial development and population growth. The raw materials industry, the iron and steel industry in particular, could not meet the needs of the processing industry. There was a strain on power supply, on communications and transport. There were too many capital construction projects and the quality of products was going down. There was a growing number of accidents and factory equipment was in bad repair.

In the circumstances, it was imperative to make timely readjustments of the 1971 plan in the light of the problems that had cropped up in the implementation of the 1970 plan. But no such readjustments were ever made in making arrangements for the 1971 plan.

Lin Biao and his cohorts at that time had the exclusive control of the Administrative Group under the Military Commission in charge of the entire defence industry. Taking no heed of an overall equilibrium of the

national economy, he blindly increased the number of projects for the arms industry and continually expanded the scale of capital construction in the industry. In industries for civilian use, he too set up factories everywhere with a view to doubling production in many departments. The State Planning Commission had sounded warnings at the National Conference for Planning in 1971, reminding those present that they should be sober-minded in dealing with the 1971 economy, that they should do things in a realistic way while opposing right conservative thinking, and avoid doing things in a big way without looking into the objective conditions. It also called on people to pay attention to quantity and also lay stress on variety and quality, to pay attention to economic accounting and look for real results, to strive for the development of the economy at a quickened pace while paying attention to making arrangements for the development of the various economic branches in a proportionate way so that their development could be well coordinated. It called on people to emancipate their minds and do away with outdated practices and ideas, while handling things in a scientific way and carrying out experiments first in every field of endeavour.

These important principles were worked out on the basis of our historical experiences and, in the situation at that time, were a most valuable thing. Unfortunately, no specific measures were taken in practice and, what was more, no suggestion was made at the conference to revise the Fourth Five-Year Plan.

The plan for 1971 stipulated that great efforts be made to speed up construction in the interior and the development of defence industries; to develop agriculture in a big way, to speed up the process of agricultural mechanization, to energetically develop the raw material industry, especially the iron and steel industry, to construct mines in a big way and to develop science and technology aimed at catching up with and surpassing the world's advanced level.

The targets envisaged in the 1971 plan were as follows: total output value of industry and agriculture to increase by 12 percent over the previous year. Of this, that of agriculture, 7 percent; that of industry, 13 percent. As to the output of major industrial and agricultural products, the targets were: grain to reach 245 to 255 million tons; cotton, 2.4 to 2.5 million tons; steel, 20 to 21 million tons, raw coal, 360 to 370 million tons; electricity, between 180 and 135 billion kwh; crude oil, 39 to 40 million tons; cotton yarn, 10 million

bales. Railway freightage was to reach 730 to 750 million tons. Total volume of retail sales was to reach 85 billion yuan. Both financial revenue and expenditure would amount to 70.5 billion yuan respectively. Budgetary investment in capital construction would amount to 27 billion yuan, an increase of 1.5 billion yuan over the previous year; the number of large and medium-sized projects under construction would total 1,168, including 112 new ones and 137 projects to be renovated or expanded. There would be an additional 1.4 to 1.56 million workers and employees to make a total of 48.5 million. The national payroll would amount to 29.6 billion yuan, an increase of 2.3 billion yuan over the previous year, including 1.1 billion yuan for wage hikes.

The development of heavy industry continued to occupy a prominent place in the plan for 1971, which set much too high targets and made arrangements for capital construction on too large a scale. Investment in inland construction alone got a 55 percent share of the total budgetary investments. Lin Biao and his gang, besides, made a point of building many projects in the interior "near mountains, dispersed, and in caves." This not only increased the cost and difficulties in construction, but also caused many troubles and waste when these projects were completed and went into production.

It was difficult to carry on the 1971 plan because it left no leeway and many targets set in the plan were too high and some materials were in short supply. For instance, steel products alone were 2 million tons short.

Superficially, thanks to the strenuous efforts we made in the implementation of the 1971 plan for the Development of the National Economy, there were considerable achievements. The plan for the total output value of industry and agriculture was overfulfilled by 4 percent, a 12.2 percent increase over that of the previous year. Of this, the plan for that of agriculture was fulfilled by 98.4 percent, a 3.1 percent increase; that of industry, by 107 percent, a 14.9 percent increase. The plan for financial revenue was fulfilled by 105.6 percent; that for budgetary investment in capital construction, by 97.5 percent. As to the major industrial and agricultural products, nine of the 13 major agricultural produce failed to reach the targets set in the plan; most of the industries had increased production, the plan for steel, raw coal, crude oil, electricity and cotton yarn all having been fulfilled. In 1971, there was a raise of pay for part of the workers and employees who took up their jobs after 1958.

Many problems, however, surfaced in the development of the economy in 1971:

1. The rate of accumulation was too high and the scale of capital construction too large. In disregard of the objective possibility, accumulation's share in the national income increased from 23.2 percent in 1969 to 32.9 percent in 1970 and 34.1 percent in 1971. During the said period, there was an unchecked expansion of the scale of capital construction with an haphazard increase of many new projects, with the result that the total investment in capital construction went up steeply. While it was 18.6 billion yuan in 1969, it was 10.9 billion yuan more in 1970 and another increase of 2.6 billion in 1971, up to 32.1 billion yuan.

2. A sharp increase in the number of people on the payroll. It was originally planned to employ 3.06 million more people in units owned by the whole people in the two years 1970 and 1971, but the actual increase was 9.83 million, three times as much as the planned figure. By the end of 1971, the number of our workers and employees reached a total of 53.18 million.

3. Wages payment and food grain sales were in great excess of the planned figures as a result of the sharp increase in the number of workers and employees. The total amount of wages paid to workers and employees in the state-owned enterprises was originally planned to be 29.6 billion yuan in 1971, but actually it amounted to 30.2 billion; the originally planned amount of food grain to be sold to these people in that year was 39.7 million tons, but the actual amount was 42.75 million tons. This resulted in "three excesses" in the 1971 plan, that is, the number of workers and employees was in excess of the 50 million mark; wages payment in excess of the 30 billion yuan mark; and the amount of food grain sold in excess of the 40 million ton mark.

These "three excesses" brought serious aftereffects to the national economy. Of the newly recruited workers and employees in 1970 and 1971, more than 6 million came from the countryside and this overdrained the workforce in agricultural production and affected its development.

On the other hand, the new workforce that had grown up in cities and townships were all sent to the countryside. This big interflow of workforce between city and countryside caused a big waste in social labour power.

Industrial labour productivity went down due to the overgrowth of the workers and employees. The labour productivity of full-time workers in the nation's state enterprises in 1971 was only 10,080 yuan, 0.8 percent less than

the previous year. At the same time, the gap between supply and demand in consumer goods and marketable grain was widened.

The year 1971 saw a considerable increase in the total amount of wages payment and sales of food grain, which were actually more than the amount of consumer goods and marketable grain available could cope with. This inevitably caused an acute shortage of supply on the market. This was a dangerous signal for the national economy.

Section II New Economic Readjustment Yielding Good Results

The attempted coup by the counter-revolutionary clique headed by Lin Biao came to naught in September 1971. He and some of his henchmen fled the country on a Trident, which crashed in the Mongolian People's Republic. Zhou Enlai was now in charge of the day-to-day work of the central authorities so that work in every field of endeavour showed a turn for the better.

At the National Conference of Planning, held in early 1972, Zhou spoke of the many problems in the various aspects of the national economy caused by the "three excesses," pointing out that we would commit mistakes if we did not pay attention to solving them.

The State Planning Commission also noted in the National Economic Plan for 1972 that the excessive increase in the number of workers and employees, while reducing the size of the workforce in the countryside and increasing the size of the urban population, burdened the market with greater supply of consumer goods.

Due to the interference by the various political movements at that time, it was, however, impossible to take any effective measures to solve these problems.

The "three excesses" problem grew from bad to worse in 1972. By the end of that year, the number of workers and employees reached 56.1 million, 2.92 million more than the previous year; the total payroll hit the 34 billion yuan mark, 3.8 billion yuan more than the previous year; food grain sold to city residents registered an increase of 2.15 million tons, compared with the previous year. In the circumstances, we had to increase the net grain import

and tap the state depot for grain in stock. In the hole we were, as people had put it at that time.

Between 1969 and 1972, we had to tap the state storehouse for cotton because its output had gone down and the supply of cotton cloth too became a problem. Speaking of the situation, Zhou Enlai in February 1973 again reminded all concerned that the number of workers and employees, the total payload and the volume of grain sale had all exceeded the planned figures and that the issuance of paper money had come to the maximum limit. He called on all concerned to tackle with all seriousness this problem of "three excesses" and "one hole."

Acting in accordance with Zhou's instructions, the State Council from 1972 onwards, in 1973 in particular, took various steps to tackle the problem. Among the main measures taken were:

1. Limiting the scale of capital construction and exercising rigid control over capital construction. In 1972 there was a 1.42 billion yuan cut in state investment, compared with the previous year, and total investment in capital construction was 870 million less. There was also a proper readjustment of the investment line-up with an increase of 370 million yuan in agricultural investment and a cut of 2.14 billion yuan in heavy industry investment. The number of large and medium-sized projects under construction was 150 less than the previous year. By the end of September 1972, farm labour working for capital construction was reduced to 3.7 million, as compared with over 11 million in 1971.

2. More rigid control over workers' wages. In June 1972 the State Council called on all localities and departments to make known to the lower levels the planned figure for the total payload, together with the planned number of workers and employees. All units were required to submit their own planned total amount of wage payment to the higher up in charge and the department of labour for approval. The local people's bank should also be notified of the planned figure and it had the right to refuse payment to workers recruited outside the plan or payment of wages increase against the set policy and regulations.

3. Filling the gap between the supply and marketing of food grain. The conference on food grain work called by the Ministry of Commerce in 1972 decided that all trades were to give greater support to agriculture for the energetic development of grain production. It also decided to consolidate

the state monopoly of marketing grain and reduce unnecessary grain supply of all kinds while controlling the figure of workers and employees. It stipulated that all localities and departments which in 1972 had recruited additional workers and employees in excess of the state plan should stop doing so, and those that had already recruited additional workers without the approval of the higher authorities should reduce the number of workers and employees as soon as possible and that people who had moved into urban districts against the related provisions should be advised to return to the countryside. It also decided to make more grain purchases in areas with a bumper harvest.

4. Readjusting the Outline Programme for the Fourth Five-Year Plan. In January 1973, the National Conference of Planning examined and reviewed the work in the two previous years for an overall equilibrium in economic development and discussed the readjustment of the Outline Programme of the Fourth Five-Year Plan. The revised draft of the plan was presented in July.

After readjustment, all targets envisaged in the Fourth Five-Year Plan were somewhat lowered. The target of steel production, in particular, was lowered from what had been between 35 to 40 million tons to 30 million tons in accordance with Zhou Enlai's instruction. This made it easier for the arrangements and readjustments to be made for the 1973 plan.

The conference also mapped out the national economic plan for 1973 and decided on a series of measures for the readjustment of the 1973 national economy. These measures were:

First, to lend all-out support to agriculture with a 19 percent increase in state's financial appropriations for agriculture and investment in industries serving agriculture, also a 30 percent increase in the supply of steel products for agriculture.

Next, to contract the capital construction front and curtail national defence and administrative spendings.

Further, to reduce the number of workers and employees by laying off those recruited by various units themselves in excess of the state plan and mobilizing a part of seasonal workers who had come to the city since 1970 to go back to the countryside and also mobilizing the greater part of the farm labourers engaged permanently in capital construction as well as those who had come to live in the city against the related state regulations to go back to

the countryside. It was expected to reduce through these measures 5 million workers and it was also decided not to recruit any new workers and employees in 1973.

The growth of the number of workers and employees thus slowed down year by year, thanks to the great efforts made in this regard in 1972 and especially in 1973, although many other problems in our economic work were still there outstanding. In 1973 the amount of food grain purchased was 48.4 million tons, which struck a balance in the purchase and marketing of food grain at home.

Efforts were also made in 1972 and 1973 in the following aspects to overcome the damages to the economic realm caused by "leftist" mistakes:

1. Repudiating anarchism and ultra-leftist trends of thought. Between the end of 1971 and 1972 Zhou Enlai criticized anarchism and ultra-leftist trends of thought first at the National Conference of Planning and later at the conference on work in communications and also at the conference on science work. Although the proposal to criticize ultra-"leftist" trends of thought at that time did not and could not rectify once for all the mistakes of the "cultural revolution," it had touched on the aftermath and damage caused by the "leftist" mistakes.

2. Overhauling and consolidating industrial management. The chief manifestations of the chaos in industrial management during this period were: slackened labour discipline; weak in the work of economic accounting; excessive number of non-productive personnel (investigations made in Shaanxi in 1971 showed that these people generally made up 20 percent of the total number of workers and staff members in an enterprise, and in some enterprises non-productive personnel was as high as 26 to 30 percent); inferior quality of the products (of the 8,737 kinds of products checked between late 1971 and early 1972, only 45 percent of them were up to standard); a sharp increase in the number of accidents (a preliminary statistics of 11 ministries in July 1971 showed that in the first half of the year, there were over 2,000 serious accidents resulting in casualties and the damage of machinery and equipment, over 2,400 people being killed in these accidents); railway transport had already been strained and yet a total of 1,025 rolling stocks fell out of use (98 rolling stocks were reported to have been worn out to be scrapped and 927 more were reported to have been damaged). Between January and May of that year 49 pieces of generating

equipment in the power industry with a capacity of 800,000 kw were burned down (the said capacity was even higher than that of the thermo-power generators installed in the first half of the year).

The National Conference of Planning, which met between December 1971 and February 1972, drafted a document entitled Summary of the Minutes of the 1972 National Conference of Planning, which brought forward certain measures to tackle problems in the economy. It unequivocally laid down provisions to restore and make perfect the following seven practices, namely, the institution of personal responsibility for each post in production, the institution of checking on work attendance, the regulations for technical operations, the system of quality control, the rules for the control and maintenance of equipment, the rules for safety in production and the system of economic accounting. The document also provided that all enterprises were to strive to reach the seven targets set for output, variety, quality, consumption of raw and other materials and fuel and power, productivity, cost and profits.

This summary was, however, never made known to departments at the lower levels because Zhang Chunqiao had made difficulties; it nevertheless produced very good effects in actual work.

In October, a conference was held with the approval of the State Council to strengthen economic accounting and help to enterprises avoid further losses. The main subject under discussion was to solve the so-called "three 10 billions" problem, which had cropped up at that time, that is, industrial profits and tax levies collected by the state were over 10 billion yuan less than the better years in history, circulation funds involved in industry were over 10 billion yuan more, and an additional 10 billion yuan was needed for capital construction. The conference made it clear that "putting politics in command" meant handling business matters and production with a political mind and that political work must go hand in hand with economic work. The conference also worked out measures to overhaul enterprise management, make up deficits and increase surpluses.

3. Strengthening the centralized, unified leadership. In those days, many enterprises did not implement the state plan seriously; they even acted contrary to it as they pleased and arbitrarily discontinued coordination with other units. Many local governments and enterprises built their own engineering projects at random, which caused a great deal of trouble. To

solve these problems, the State Planning Commission in February 1973 drafted the Provisions on Adhering to Centralized Planning and Strengthening Economic Management with 10 clauses dealing with problems in our economic affairs:

(1) Stick to centralized planning of the socialist economy and achieve well an overall balance. All plans ratified by the Party Centre and the State Council must be dealt with in all seriousness and put into implementation in real earnest.

(2) Concentrate attention on certain capital construction projects and have them completed once and for all to yield better results of the investment. Examine the existing projects one by one and divide them into different categories in order of importance. From now on, all such engineering projects should without exception be arranged according to the procedure for capital construction.

(3) The right to control the total number of workers and employees and the total wages payment rests in the hands of the central authorities. No locality or department has the right to increase the number of workforce or the amount of wages payment on their own. The workforce in enterprises and undertakings is subject to the unified control of the Central Government, the provincial, municipal and autonomous regional governments.

(4) Financial funds should be strictly distinguished from credit funds and the two should be under the control of two separate departments. It is not permissible to use credit loans from a bank or the circulation fund of an enterprise for capital construction. The bank should exercise strict control over the emitting of banknotes. All enterprises must pay taxes and hand in profits as is prescribed by the state; deferred payment or misappropriation is not allowed.

(5) The power of distributing and handling the main materials is to be concentrated in the hands of the Central Government and the provincial (municipal and autonomous regional) governments, and in the hands of governments at these two levels only. All productive and construction units are required to fulfil without fail the production task assigned to them in the state plan, to organize production and deliver goods in accordance with the contracts signed without any additional terms other than those provided in the contract; nor are they allowed to arbitrarily break off their coordination with other units

(6) All enterprises are to have a centralized, unified set-up to conduct production. There should be rules and regulations for enterprises to follow and strict discipline. All enterprises are required to fulfill without fail the production targets and the various technical and economic targets as prescribed in the state plan.

(7) The large and medium-sized enterprises are the sinews of the national economy. The Central and provincial (municipal and autonomous regional) governments and governments at these two levels alone, must do their best to manage these key enterprises efficiently, and it is not permissible for them to transfer management to the lower levels. Enterprises transferred by the Central Government to a local government must get the approval of the related department under the State Council before they can change their line of production. Small local industrial enterprises will have to be overhauled and consolidated.

(8) Uphold the principle of "to each according to one's work" and oppose equalitarianism. Introduce a system of regularly examining one's work done and deciding on promotions. It was suggested that the system of payment by the hour plus bonus and the system of piece rate wage may be introduced to a few enterprises on an experimental basis.

(9) Whoever violates law and discipline shall be sanctioned or punished according to Party discipline and state law; they will not be tolerated or abetted. Party committees at all levels must rely on the masses and combat evil doings and unhealthy practices.

(10) Strengthen Party leadership over economic work and adhere to the unity of policies and business matters. Failure to pay attention to production and ignoring production on the part of the main leaders of an enterprise mean dereliction of duty.

This document was, however, never officially made known to people at the lower levels, due to Zhang Chunqiao's all-out obstructions.

4. Rectifying some "leftist" policies in the countryside. Lin Biao talked a lot about "expanding the communes and merging the production brigades and teams in the countryside in a big way." By September 1971, half of the communes and production brigades and teams in Jiangxi's countryside had been merged and two-thirds of the land plots reserved for private use in the province had been taken away.

In those days, lopsided emphasis was laid on the slogan "taking grain

as the key line" to restrict a diversified economy, which was dismissed as a "capitalist tendency" considering "money-making as a thing of first importance." In many places, fruit trees were felled, fish ponds were filled up to make room for development of grain production only. Equalitarianism in payments for work done prevailed throughout the countryside and this greatly dampened farmers' enthusiasm for farming.

In the light of the situation, the Party Central Committee in December 1971 issued a directive on the problem of distribution of income in the rural people's communes, reiterating that distribution in these units must take into consideration the interests of the state, the collective and individuals alike, and stick to the socialist principle of "from each according to one's ability, to each according to one's work." The directive called on the various localities to increase accumulation gradually on the basis of the development of production to enable the farmers to increase as much as possible their personal income through increased production in years with a moderate harvest. The principle of "to each according to one's work" must be adhered to. Each locality must handle things in the light of the actual conditions there, and based on its own successful experience, keep to these simple, easy-to-handle methods of calculating payments for work done as were welcomed by the masses. The document emphasized the need for an all-round development of agriculture and a diversified economy, which was permitted by Party policy, and noted that this must not be dismissed as something capitalist.

5. Paying attention to education and scientific research. Lin Biao and the gang of four had totally denied the achievements in science and education in the first 17 years of the People's Republic, refusing to acknowledge the part played by science and technology in promoting production. They disbanded science research institutes, smashed up scientific and technical equipment and experimental bases and persecuted people working in the science and educational circles and belittled the research work in basic theories of natural sciences. In 1972 Zhou Enlai time and again proposed to improve the academic standards of the educational institutes and intensify the study of and research in basic theories. The *Guangming Daily* (*guangming* means brightness, it is a newspaper for intellectuals) in October 1972 carried an article by Beijing University Vice-President Zhou Peiyuan stressing the importance of intensifying the study of and research work in basic theories.

During the said period, the Party Central Committee called a science conference crying for intensified scientific research and catching up with the world's advanced level.

6. Restoring the work of family planning. Early in 1964, the State Council had already set up an office in charge of family planning and giving guidance to work in this field throughout the country. But it was disbanded during the "cultural revolution" and was not restored until 1973.

The excessively high natural rate of population growth between 1966 and 1970 had already caught our attention when we were drawing up the Outline Programme of the Fourth Five-Year Plan (Draft) in 1970. The Outline Programme accordingly mentioned the need to pay more attention to the work of family planning, which, as emphasized by Zhou Enlai in June 1970, is part of the state planning.

Beginning from 1970, China made great efforts to take measures facilitating birth control and the birth rate dropped from 33.4 per thousand in 1970 to 27.9 per thousand in 1973 with the natural rate of population growth going down from 25.8 per thousand to 20.9 per thousand.

7. There was a major breakthrough in China's foreign affairs and new progress in its economic relations with foreign countries. When Zhou Enlai was in charge of the day-to-day work of the central authorities, he was adamant in lifting the influence of the ultra-"leftist" trend of thought and together with Mao Zedong, shaped up the correct principles governing China's foreign affairs. Much progress were made in this regard and China's international status was being raised day by day.

In October 1971, its legitimate seat in the United Nations was restored, thereby putting an end to the extremely unjust issue of its being deprived of its legitimate rights in the United Nations Organization.

In February 1972, China and the United States issued the Shanghai Communique declaring that the two countries had begun to embark on the normalization of relations. This threw open the door for friendly contacts between the people of the two countries, which had been interrupted for 20 years.

In September 1972, China and Japan established formal diplomatic relations to turn over a new leaf in the history of Sino-Japanese relations.

The improvement in its relations with foreign countries provided favourable conditions for the expansion of its economic and technical interflow with other countries and its foreign trade as well.

One major change in China's imports was its gradual turn to the capitalist countries for the import of technology and equipment, as a result of the drastic deterioration of the Sino-Soviet relations in the 1960s. But in the years following 1966, due to Lin Biao and the gang of four's interference, the volume of imports dropped for several years running and import of technology and equipment was discontinued in 1968. It was not until 1972 that the import of complete sets of equipment and new technology that had been interrupted for many years was restored.

In 1973, with the approval of Mao Zedong and Zhou Enlai, China imported machinery and complete sets of technically advanced equipment, including 13 giant chemical fertilizer plants, four giant chemical fibre mills, 3 petroleum chemical industrial works, one alkyl benzenes works, 43 sets of coal combines, three giant power stations and the 1.7 metre rolling machine for Wuhan Steel. The import of these items not only further expanded China's capacity in industrial production but also help to elevate of its technical level in modernized production.

When Zhou Enlai was in charge, industrial production in 1972 and 1973 began to pick up and the situation of the national economy took a turn for the better, the sabotaging activities of Jiang Qing and company notwithstanding. This was made possible because measures had been taken to consolidate and develop the national economy and the "leftist" mistakes of the "cultural revolution" had to a certain extent been rectified in our everyday work.

The implementation of the National Economic Plan for 1973 resulted in the fulfilment and overfulfilment of the main targets. The total output value of industry and agriculture increased by 9.2 percent, compared with the previous year. Of this, that of agriculture went up by 8.4 percent; industry, by 9.5 percent. The output of the major agricultural produce—grain, cotton, hemp, sugar cane and tobacco—reached an all-time high. Grain increased by 10.2 percent, compared with the previous year; cotton, 30.8 percent. Among the industrial products, steel increased by 7.9 percent; electricity, 9.4 percent; crude oil, 17.4 percent; raw coal, 1.7 percent; cotton yarn, 4.3 percent; volume of railway freightage, 2.8 percent. Budgetary investment completed ran to 26.5 billion yuan, making a total of 32.1 billion yuan, if investment outside the budget was included. Large and medium-sized products actually under construction numbered 1,627, of which 168

were completed and went into production. Newly added fixed assets were valued at 23.2 billion yuan and 68.7 percent of them went into operation, which was 13 percent more than the previous year. The newly added productive capacity of mining iron ores, dressing and coking all exceeded 10 million tons. The newly added capacity of coal mining was 18.35 million tons; that of crude oil, 10 million tons; that of electric power generating motors, 4 million kw, which made 1973 the year with the largest number of newly installed motors. The total volume of retail sales amounted to 110.6 billion yuan, an 8.1 percent increase over the previous year. Foreign trade grew by a wide margin with the total volume of imports and exports amounting to US\$10.98 billion, an increase of 34 percent over the previous year, adjusted for such factors as the devaluation of the dollar and fluctuations of prices on the world market. This rate of growth was the highest since the First Five-Year Plan. Financial revenues amounted to 80.97 billion yuan, a 5.6 percent increase over the previous year, with revenue and expenditure in balance.

But there were still some outstanding problems in our economic work by the end of 1973. Key coal mines in some parts of the country, for one, failed to fulfil the plan so that coal reserve in certain coal-consuming units began to sink low. An overall investigation into the nation's coal reserves in September that year showed that the nation's coal in stock was about enough to last only one and a half months.

Another problem was the strain on transport. The troubles of the Zhengzhou and Jinan Railway Bureaus affected the smooth running of the Beijing-Guangzhou and Tianjin-Pukou Railways, the two trunk lines. The transport of important materials was thus adversely affected.

Then there was the old problem of overextended capital construction front with poor investment results.

Finally, There was the problem of heavy losses incurred by the enterprises and many failures to hand in profits. The total losses for the year amounted to 5.78 billion yuan, and unpaid profits due ran up to 2.71 billion yuan.

These problems were expected to be tackled by consolidating anew the economic work in 1974 and 1975. But every effort made was obstructed by Jiang Qing and her gang. Zhou Enlai did his best to eliminate the influence of the ultra-"leftist" trend of thought in the various departments, but Jiang

Qing, Zhang Chunqiao and Yao Wenyuan simply did the opposite, insisting on repudiating "ultra-rightist." Mao Zedong during the said period did do something to check and rectify some specific mistakes, but, on the whole, he persisted in carrying on the "cultural revolution," and he, too, was of the opinion that the task at that time remained to be one of opposing "ultra-rightism," and so disapproved Zhou Enlai's correct viewpoint.

In the latter half of 1973, Jiang Qing and her gang stirred up a reverse current of "combatting rightist restoration," referring to the various proper measures taken by Zhou Enlai when he was in charge of the day-to-day work as "a revisionist comeback." Work in every field of endeavour, which had been improving, now faced new setbacks as a result.

XXVI Ebb and Flow

Section I The Downward Plunge of the Economy During The Movement to Criticize Lin Biao and Confucius

The year 1973 saw new achievements in various fields of work and public order and production turning gradually for the better. The Party Central Committee called its Tenth National Congress in August 1973. Though it did in a way criticize Lin Biao's counter-revolutionary clique, it continued making the "leftist" mistakes of the Ninth Congress and, therefore, could not be expected to sum up in real earnest the historical lessons and experiences by coming to the bottom of things.

At the Tenth Congress, Wang Hongwen was made vice-chairman of the Party Central Committee. Jiang Qing, Zhang Chunqiao, Yao Wenyuan and Wang Hongwen ganged up inside the Political Bureau to step up their underhand activities in a bid to usurp the supreme power of the Party and state. They were later more widely known as the gang of four.

In January 1974, they made an announcement on unfolding the so-called movement to criticize Lin Biao and Confucius, which was actually an important move to usurp the supreme power.

Jiang Qing and company told their hack writers to churn out lengthy articles for publication. Ostensibly they were criticizing Confucius, the

noted scholar in Chinese history, as a reactionary. But in fact, they were attacking Zhou Enlai by innuendo, branding the policies followed and effective measures taken when he was in charge of the day-to-day work as "restoration" and "retrogression."

There was, for instance, a big-character poster at Shanghai Harbour Master's Office under the title "Master of the Docks, Yes; Slave of Tonnage, No." The gang of four had it published in *Renmin Ribao* (People's Daily, organ of the Party Centre) as headline news with an editor's note which said: "This revolutionary big-character poster has picked out the real point at issue in industrial management today, and is of universal, realistic significance...." "When a Party committee fails to attend to the major issues, things that have been repudiated during the great cultural revolution may possibly reappear." This big-character poster produced very bad influences and aftereffects.

On February 10, 1974, Jiang Qing gave a talk at the Fourth Ministry of Machine-Building and sensationally fabricated the so-called "snail incident," to attack Zhou Enlai and some other leading members of the central authorities. It happened that a Chinese group visiting the United States to study colour television tube production line was given a glass snail as a gift by a US Company. Jiang Qing spoke of importing colour television tubes as "worshipping things foreign" and said that this "gift" was an insult to China, because, she declared, the US-side meant to say that China was making progress at a snail's pace. The Political Bureau of the Party Central Committee later did withdraw Qiang's statement, but the import of such a production line was thus postponed for many years.

The movement to criticize Lin Biao and Confucius started by Jiang Qing and her gang once again plunged the national situation, which had just been stabilized, into chaos. Many veteran cadres who had just gone back to work were once again under attack. The factions in various places under the gang of four took this opportunity to "seize power" for the second time. In some places, a few conspirators, taking advantage of the differences between different factions, hoodwinked the masses and once again started seizing arms, food grain and robbing warehouses and using violence to fight each other.

This being the case, the national economy was once again undermined. Industrial production, in particular, went down drastically. Among the

outstanding features of the crisis was underproduction of coal, railway traffic jam, ships being held up at harbours, financial deficits and people's lowered living standard.

The output of the nation's key coal mines was 8.35 million tons short from January to May 1974, a drop of 6.2 percent, compared with the corresponding period in the previous year; steel, 1.88 million tons short, a drop of 9.4 percent; chemical fertilizer, 1.85 million tons short, a drop of 3.7 percent. The drop in coal production especially affected industrial production as a whole and supply on market so that many enterprises had to cease production or partially cease production. More than 300 of the 990 small synthetic ammonia plants in the country ceased operation or operated under capacity because of the coal shortage.

The volume of railway freightage in the same period was 21 million tons less, a drop of 2.5 percent, compared with the corresponding period in the previous year. Traffic on many sections of the Tianjin-Pukou, Beijing-Guangzhou, Beijing-Baotou and Guizhou-Kunming Railways was impeded and the number of trains running on these lines were one-third less than under normal conditions, which affected the whole of east China, central south China, northwest China and southwest China. Coal and other materials in Shanxi and Henan could not be shipped to other places in time.

Shanghai was in dire need of coal and coal from Datong and Kailuan had to be shipped to Shanghai by sea from Dalian in a detour. By June, collieries in Shanxi had piled up 1.95 million tons of coal, including 433,000 tons piled up by Yangquan Coal Mining Bureau and coal at two of its depots was in a state of spontaneous combustion. Between January and October the Zhengzhou Railway Bureau had on the average a daily shortfall of 273 carriages of coal for shipment, which caused a pile-up of coal—up to 333,000 tons—in several principal collieries, such as Pingdingshan, Hebi and Jiaozuo. Because of the shortfall in the transport of coal, there wasn't enough fuel for the steam engines of the Guangzhou, Liuzhou and Wuhan Railway Bureaus. Hubei Province alone was short of 520,000 tons of coal and this created difficulties in industrial production and civilian consumption in the province.

It may be recalled that with the introduction of a quota system on a trial basis in March 1973, District No. 5 of Shanghai Harbour fulfilled its year's task 32 days ahead of schedule and had handled a record volume of freightage since 1966.

A piece rate wage system was introduced to the Huangpu Harbour in Guangzhou in October 1973. As a result, the stevedores there, while making up the unfulfilled tasks of the first nine months, overfulfilled the task of the year as a whole.

Since the movement to criticize Lin Biao and Confucius was launched in January 1974, many harbours in the country had hesitated to attach importance to the targets for loading and unloading and no longer cared about the tonnages to be handled. Labour efficiency plummeted and time for a ship's stay in a harbour became longer and longer still. Since January, there were constantly 240 to 250 ships at anchor at harbours throughout the country, more than 40 being there longer than a month, and some being there as long as 100 days. In January alone, payment to hired foreign ships waiting for a berth amounted to 1.86 million pounds sterling. As to our own ships, the time of staying at a harbour waiting to be loaded or unloaded was even much longer, over six months in some cases. This not only caused great economic losses but also affected foreign trade transactions, and lowered China's international prestige.

There was total chaos in production. Take Zhengzhou Railway Bureau for instance, between January and October 1974, there were altogether 68 serious accidents, twice as many as the corresponding period in the previous year. It had the largest number of accidents among the nation's many railway bureaus. Only 57.9 percent of the freight trains ran on schedule, 20 percent less than the corresponding period of the previous year. It was the worst of all railway bureaus in the country in the operation of freight trains and in punctuality.

Between January and May financial revenues of the whole country were 500 million yuan less than the same period in the previous year; expenditures were 2.5 billion yuan more than the same period the previous year with 500 million yuan in the red, whereas in the corresponding period of the previous year, revenues were 2.74 billion yuan more than expenditures.

Once public order and production order as a whole had gone wrong, the total output value of the nation's industry and agriculture from January to May came to only 35.7 percent of the year's planned figure. When making arrangements for planned market supplies at the beginning of 1974, it was found that there already was a 4 billion yuan gap between the purchasing power and the amount of commodity supply available. Under the impact of

the movement to criticize Lin Biao and Confucius, the situation in production went from bad to worse. Consumer goods, with much less variety, were also far from enough to meet public needs. There was an acute shortage of non-staple food and a scarcity of cigarettes and colourless alcoholic drinks. Even such daily necessities as cooking pots and other kitchen utensils were in short supply and this brought much inconvenience to the people at large.

With a view to changing such an economic situation, Zhou Enlai adopted some measures to tackle the problem under most trying conditions.

In April 1974, the State Planning Commission called a meeting in Beijing attended by the responsible members of 15 provinces and municipalities to study how to promote production as quickly as possible. Because it took place at a time when the movement to criticize Lin Biao and Confucius had come to a climax, the meeting found it impossible to do much to change this unfavourable economic situation.

By June, as the first half of the year was about to be over, there was no sign of a turn for the better in the situation. The Political Bureau of the Party Centre on July 10 issued the Circular on Grasping Revolution and Promoting Production.

It appealed to all leading cadres who had been absent from their posts without leave to return to the unit where they worked within a fortnight and all others who had left their post without permission also to come back immediately, adding that those who failed to comply with the request would be penalized accordingly. The circular called on Party and Youth League members to play an exemplary role in rigidly observing discipline and demanded that Party committees at all levels check up the way the state plan was being implemented and work out measures for increasing production and practising economy.

After the circular was made known to the public, which acted upon it accordingly, production in some places and units began to pick up, although in July the situation in industrial production and communications continued to deteriorate, showing only a slight improvement in the following month without a fundamental change.

Between January and August, state finance began to show a deficit of 2.72 billion yuan. Between January and September, the state had a fairly

large unfavourable balance in international payment, first of its kind ever experienced by the People's Republic since its founding 25 years earlier.

So the Political Bureau of the Party Centre instructed the State Planning Commission to call a national conference in Beijing on October 6 to grasp revolution and promote production. The conference demanded that the light industrial departments should turn out an additional amount of products to the value of over 4 billion yuan, the commercial departments should supply the market with merchandise in stock to the value of 2 billion yuan, and the foreign trade departments supply the home market with goods in stock to the value of 500 million yuan; it also set up specific targets for the average daily output of coal and steel and the daily average number of railway carriages to be loaded for transporting goods.

This conference was more or less a stimulus to the sagging economy, but because the plan for the first three quarters of the year was carried out unsatisfactorily, it was unlikely to improve the difficult situation in existence for so long.

Mao Zedong, who earlier had given consent to the launching of the movement to criticize Lin Biao and Confucius, now on many occasions, severely criticized Jiang Qing and her gang when he found they were taking advantage of the movement to engage in activities to usurp Party and state power.

In July 1974, Mao at a Political Bureau meeting warned them not to form a "small faction of four."

Zhou Enlai was seriously ill in the latter half of 1974. On October 4 Mao proposed to make Deng Xiaoping first vice-premier.

Jiang Qing and her gang considered Mao's decision a most troublesome stumbling block in their way to Party and state power and hastily schemed to frameup charges against Zhou and Deng.

On October 11, the Party Central Committee sent out a notice on the convocation of the Fourth National People's Congress, quoting a statement by Mao Zedong, which said: "The great proletarian cultural revolution has been going on for eight years. Stability is now the right thing. The whole Party and the whole army must unite."

But the gang of four simply ignored Mao's wish and, seeing that the name list of the state's leading personnel was being studied, stepped up their

underhand activities to usurp power and organize a cabinet of their own. As a Political Bureau meeting, they deliberately hatched a plot against Zhou Enlai and Deng Xiaoping, charging the two with national betrayal and making a fetish of things foreign. Their scheme to form a cabinet of their own was, however, thwarted by Mao Zedong, who many times laid bare their conspiracy and criticized them for this, and by Zhou Enlai and Deng Xiaoping and other veteran Party stalwarts, who fought to oppose them.

The draft of the National Economic Plan for 1974 was ready by July and August 1973, but due to the interference of the movement to criticize Lin Biao and Confucius, it was not even possible to convoke a National Conference for Planning at that time.

The central authorities ratified the draft plan without a meeting to deliberate the matter, and, in April 1974, sent the draft to the lower levels for implementation. The targets set in the plan were not very high, but because of the political unrest, most of them were not reached in the implementation of the plan, while the output of a considerable number of major products was even below the actual level of the previous year.

The total output value of industry and agriculture was only 95.6 percent of the planned figure, just a 1.4 percent increase over the previous year. Of this, the total output value of agriculture was 101.5 percent of the planned figure, a 4.2 percent increase; that of industry, 93.2 percent, only a 0.3 percent increase. As to the output of major industrial and agricultural products, with the exception of food crops, jute, and bluish dogbane, all other major cash crops lagged behind the planned figures; most of the heavy and light industrial products too were below the planned figure. Compared with the previous year, cotton was 4 percent less; steel, 16.3 percent less; raw coal, 1 percent less; cotton yarn, 8.4 percent less; the volume of railway freightage down by 5.3 percent; the rate of newly added fixed assets commissioned for use down by 5.3 percent. In that year, there was an unfavourable balance of international payment running to US\$ 670 million and a financial deficit of 770 million yuan.

The economic situation in 1974 provoked the resentment of the whole nation, it also caught Mao Zedong's attention. In November he issued a directive "to lift up the national economy," which was also the common aspiration and strong desire of the whole population.

Section II Overall Rectification Brings About a Turn For the Better

The second Plenary Session of the Tenth Party Central Committee, which met from January 8 to 10, 1975, elected Deng Xiaoping vice-chairman of the Central Committee of the Chinese Communist Party and a member of the Political Bureau Standing Committee. This was a heavy blow to the gang of four scheming to form a cabinet of their own and usurp the power.

The First Session of the Fourth National People's Congress was held in Beijing from January 13 to 17. Zhou Enlai, the seriously ailing premier, pulled himself together to deliver the Report on the Work of the Government, reiterating the two steps to be taken in developing the national economy as put forward at the Third National People's Congress. That is, step one, to build up an independent, fairly comprehensive industrial system and national economic system before 1980 and step two, to bring about the all-round modernization of agriculture, industry, national defence and science and technology within this century so that China's national economy may forge ahead in the world's foremost ranks.

Zhou in his report referred to the next 10 years as the key decade for the realization of the two steps envisaged, promising that the State Council would draw up a 10-year plan, a five-year plan and annual plans aiming at the goals set for the two steps to be taken.

After the congress, Zhou Enlai became critically ill and was hospitalized; Deng Xiaoping took over the day-to-day work of the central authorities. His first endeavour was to tackle the two most outstanding problems—railway transport and the iron and steel industry—as a breakthrough, followed by a series of meetings called to study matters concerning the railways, metallurgy, the defence industry, and also an enlarged conference of the Military Commission, as well as conferences on agriculture and science and technology. There was an overall rectification campaign on the political, economic, military, science, cultural and educational fronts and efforts were made to put an end to the chaotic situation the "cultural revolution" had given rise to.

On February 10, the Party Central Committee made a statement approving the Report on the National Economic Plan for 1975 submitted in

by the State Planning Commission. It called for stronger Party leadership and unity, for the fulfilment and overfulfilment of the 1975 national economic plan and the Fourth Five-Year Plan.

It emphasized the need to carry out the principle of taking agriculture as the foundation and industry as the leading factor in developing the national economy, to arrange the national economic plan in a down-to-earth manner in the order of agriculture, light industry and heavy industry, to develop agriculture in a big way, to strengthen the basic industries and the communications and transport front, to run the defence industry well and in real earnest, to make proper arrangements for the light industry, for the home and overseas markets and for foreign trade.

The plan provided that the total output value of industry and agriculture in 1975 would be around 11 percent higher than the previous year. Of this, industry to increase about 14 percent; agriculture, about 3 percent. The main targets in production: food grain, 280 million tons; cotton, 2.6 million tons; steel, 26 million tons; raw coal, 430 million tons; crude oil, 75 million tons; electricity, 183 to 190 billion kwh; cotton yarn, 11.5 to 12 million bales; volume of railway freightage, 850 million tons. Budgetary investment in capital construction would run up to 30 billion yuan, and, with the investments raised by the local authorities themselves, it would total 37.5 billion yuan. There would be 1,106 large and medium-sized projects under construction, including 48 new ones.

Since the launching of the movement to criticize Lin Biao and Confucius, railway transport in some places had been jammed, seriously impeding the regular traffic on the four trunk railway lines—the Tianjin-Pukou, Beijing-Guangzhou, Long-Hai and the Zhejiang-Jiangxi Railways. In January 1975 46,000 railway carriages were loaded every day; 43,000 in February; 12,000 carriages fewer than what was needed, thus seriously affecting industrial production and daily life in some cities.

The Party Centre called a national conference of Party secretaries in charge of industry on February 25. This took place at a time when the gang of four was fanatically repudiating the so-called trend of "attaching importance to the productive forces than anything else"; their attack on the "trend" seriously undermined the entire national economy. Deng Xiaoping at the conference made a speech entitled "The Whole Party Should Take the Overall Interest Into Account and Push the Economy Forward." In the

speech he referred to the realization of the four modernizations as the overall issue of the entire Party and nation and said that the entire Party must strive for the attainment of this great objective and, with unity of the mind and concentration of energy, make efforts to push the national economy forward and strive for the realization of the four modernizations.

Countering the gang of four's reactionary viewpoint of making revolution at the expense of production, he noted poignantly that nowadays there were people who only grasped revolution without any guts to promote production, which was "utterly wrong." He added that "If production doesn't increase, we are sure to have difficulties in carrying out the Fifth Five-Year Plan."

In those days, the weakest link in the mechanism for lifting up the national economy was railway transport. The Party Central Committee on March 5 issued the Decision on Strengthening Railway Work. It was decided that all railways in the country would be placed under the unified management and centralized directorship of the Ministry of Railways, which would be in charge of the deployment of the railway workers. It stressed the need to set up or make perfect the various necessary rules and by-laws and ensure safety and punctuality in transport.

The decision also called for maintaining order on the national railways, providing that any act to disrupt the normal operation of the railways and impair railway transport was illegal and must be stopped by all means, and anyone who acted that way would be punished if the case was grave in nature.

In the spirit of the directive of the Party Centre, the various railway bureaus shuffled and reinforced the leadership at all levels, removing those factional chiefs who had serious factional prejudices and refused to mend their ways, making arrest of a handful of wicked factional chiefs who undermined railway transport. Much was done to restore and make perfect the many regulations and by-laws of the railway network so that the situation in railway transport soon began to take a turn for the better.

In only a month's time, that is, by April, the serious traffic jam on railway lines under different railway bureaus was done away with and 19 of the nation's 20 railway bureaus overfulfilled their plan in loading the railway carriages; Nanchang Railway Bureau was the only exception, which failed to fulfil its plan but things there, too, were improving. The number of loaded

railway carriages throughout the country averaged 34,000 a day, the highest record in history. Everyday, 18,000 carriages were loaded with coal, the first time in the past five years that the plan was fulfilled. More trains ran on schedule and in safety.

Once the railways were out of trouble, it was possible to push ahead the consolidation of the entire industrial front—the iron and steel industry, the coal mining industry, the defence industry. There was a marked improvement in the situation. Between January and April, the total output value of the nation's industry and agriculture, compared with the corresponding period in 1974, increased by 19.4 percent.

Iron and steel production did not fare well in the first four months of 1975. Steel production was 1.95 million tons short; four steel plants—Anshan, Wuhan, Baotou and Taiyuan—were seriously under production. To tackle the problem, the central authorities sponsored a forum on iron and steel industry on May 8. At the forum Deng Xiaoping delivered a speech entitled "Some Problems Outstanding in the Iron and Steel Industry," in which Deng unequivocally spoke of the need to find and recruit into the leading groups cadres who are not afraid of losing their jobs. He pointed out that those who persisted in factionism should be removed or denounced as the case may be. He emphasized the need to act in accordance with the Party's personnel policies in earnest, to settle the problems of not only those who were under a cloud with a certain unpleasant label stuck on them, but also those round them and who had been involved in these cases, especially to have an eye to those old workers, who leading technicians, veteran labour models with a view to arousing their enthusiasm for production.

Deng maintained that in order to boost production, it was necessary to set up and make perfect necessary rules and regulations, that it was better to carry out these rules and regulations more rigidly because otherwise these rules would not be followed seriously.

In the spirit of the forum on the iron and steel industry, the Ministry of Metallurgy overhauled and consolidated the iron and steel enterprises. By June, Anshan Steel, Wuhan Steel and Taiyuan Steel, whose production had been far short of the mark gradually made improvements. The nation's average daily steel output hit the 72,400 tons mark, overfulfilling the planned daily average output for the year.

The first half of 1975 saw marked improvement in industrial pro-

duction ever since Deng Xiaoping started overhauling and consolidating the economy energetically. Since March, there had been improvement every month. In May and June, the output of raw coal, electricity, chemical fertilizer, cement, internal combustion engines, paper and paper products as well as the volume of railway freightage all surpassed the record monthly output.

In the first half of the year, crude oil output made up 49.8 percent of the target set for the whole year; raw coal, 52 percent; steel, 42.2 percent; timber, 51.3 percent; railway freightage, 48.9 percent; the total output value of industry, 47.4 percent; financial revenue, 43 percent.

In June, the State Council called a meeting to discuss the guidelines for the work of planning. It studied rather thoroughly the line, principle and policy for economic work and brought up some important ideas. It, for instance, held that the main issue at the moment was chaos in production, which was poorly organized, and so it was necessary to overhaul and consolidate economic management with accent on centralization. It held that the structure of planning should be one that does the job from top to bottom with the two working in coordination with each other. It held that in enterprise management, the various related ministries or commissions under the central government should be the principal party in charge of the railways running across more than one province, post and telecommunications, electric power networks, navigation on the Changjiang River, civil aviation, oil pipes, sea transport, major units of scientific research and designing, as well as large oilfields, and a few key enterprise and key engineering projects under construction.

Entrusted by the State Council, the State Planning Commission drafted a document entitled *Some Questions Concerning the Speeding up of Industrial Development* aimed at solving such problems as industrial development without a definite orientation, vagueness of the policies, lack of rules and regulations to follow and confusion in management. In August when the State Council was discussing this draft document, Deng Xiaoping gave the talk entitled "Some Comments on Industrial Development." In it he gave his views on industry's support for agriculture, on the import of technology and equipment, on the work of scientific research in enterprises, on order in industrial management, on quality control, on rules and regulations and on the principle of "to each according to one's work."

This document drafted by the State Planning Commission aimed at coping with the chaos on the economic front caused by the "cultural revolution." In light of the actual situation at that time, and countering the fallacies of Lin Biao and Jiang Qing and their cohorts undermining production and construction, it put forward a series of major principles and policies governing the development of industry. For instance, promoting production, it pointed out, must not be denounced as advocating the idea that "the productive forces alone counts" and "business first." It noted that theoretical studies should be conducted to help bring about stability and unity and boost production. It proposed a shake-up of the leadership in various units and so to take over the leadership usurped by evil persons. It stated that it was wrong to divide workers and employees into so-called rebels and conservatives. It pointed out the need to establish a system of production management with the system of personal responsibility at one's post as the core and a powerful setup to conduct production. It called on people to learn with modesty all foreign things that were advanced and import selectively advanced technology in a planned way. It also spoke of the importance of upholding the principle of "to each according to one's work."

At the same time, the various departments concerned under the State Council also drafted regulations governing industrial management, capital construction management, financial management, and regulations on the control of materials, prices and labour power.

Work was done to overhaul and consolidate agricultural production alongside rectifications in industry. On September 13, at the national conference of learning from Dazhai [a pace-setter in agricultural production], Deng Xiaoping stressed the importance of developing agriculture, pointing out that failure to conduct agricultural production would hold back national construction. He also mentioned that the policy towards cadres in the countryside should be honoured.

On September 27, at a forum on rural work, Deng spoke of "the need to overhaul and consolidate the agricultural setup" and observed that Party rectification was the "key to overhaul the agricultural setup."

After the forum, a million cadres were sent by the various local governments to the countryside to help overhaul and consolidate the communes and production brigades there. To carry out the Party's

economic policy in the countryside, the Party Centre issued a document which pointed out with emphasis that commune members' normal family sideline production must not be regarded as capitalist and criticized as such. Thanks to these measures, the farmers masses' enthusiasm for production soared.

During the said period, Deng Xiaoping also conducted the work to rehabilitate science, technology and education. The "cultural revolution" had wantonly wrecked the work of science and technology and education. Intellectuals were considered objects of dictatorship; most of them felt ill at ease, wishing not to stay on at their jobs. A multitude of highly specialized scientists and technicians had been sent to the production front to do manual labour. About 300 science and technological periodicals in the country ceased publication while research work and technological studies in many aspects were either paralyzed or semi-paralyzed.

In the circumstances, the Party Centre sent Hu Yaobang to conduct work in the Chinese Academy of Sciences, where a change in the situation was to be initiated. This institute was "cleared up" in a brief period of time with marked results. On the basis of the findings of an investigation made, an outline report on the work in the Chinese Academy of Sciences were prepared. The report proposed to take effective measures and carry out Party policies there as quickly as possible to arouse the enthusiasm of the intellectuals. The report concluded that it was wrong not to ask and encourage scientists and technicians to study things in the field they were specialized in and proposed to strengthen the ranks of researchers and research institutes of various disciplines.

On September 26, when listening to the report on the work in the Academy of Sciences, Deng Xiaoping noted that scientific research should get ahead of the national economy, that those having reached a high academic level must be well looked after, commended and made to play their part, that only those who are good organizers and who do things according to the Party spirit may be chosen to do logistic work to help solve scientists' problems in daily life and provide them with favourable conditions to facilitate their research work.

Deng stressed that the central task of education was to train successors to the field of science and technology. He predicted that there would be a crisis which might take place in the educational department and stay the progress of the modernization drive.

He raised two questions concerning higher education: What part would our universities expected to play? If our universities would remain academically at the level of an intermediate technical school, why should we take the trouble of running universities at all? He proposed to select and send high school students who were good in mathematics, physics and chemistry to universities of science and technology and arouse the initiative of the faculty members. Deng's talk and the Outline Report was a great inspiration to the departments of science, technology, culture and education, which had been scandalously wrecked, and to intellectuals in these departments, who had been wantonly persecuted by the gang of four under its ultra-"leftist" line.

Then, there was the need for "clearing up" the mess in every other field of endeavour as well. In the circumstances, Deng declared that while Chairman Mao had spoken of the need to overhaul and consolidate the armed forces, the local governments, industry and agriculture and the commercial department, there was also the need to overhaul and consolidate the cultural and educational departments and the ranks of scientists and technicians as well. Deng's principle was to overhaul and consolidate the various fronts that had been in a mess as a result of the "cultural revolution" with the aim of going back to the Party's correct line.

During this period Mao Zedong repeatedly stressed the need for stability and unity. He criticized Jiang Qing, Zhang Chunqiao, Yao Wen Yuan and Wang Hongwen, and warned them "not to form a gang of four." Acting in accordance with Mao's wishes, Deng for many times sternly criticized Jiang Qing and her gang at the Political Bureau meetings. Criticisms by Mao and Deng made the gang of four draw in their horns a bit and made it possible for Deng to overhaul and consolidate work in various fields.

But the gang of four had never wanted to give up. They continued to take advantage of Mao's persistence in his mistakes in general to make trouble, waiting for a chance to fight back.

In February 1975, Mao sent out a directive relating to some theoretical problems, holding that the existing commodity system, the eight-grade wages system and the principle of "to each according to one's work" were "bourgeois rights" that "should be restricted under the dictatorship of the proletariat." These views were, of course, a misinterpretation and

dogmatization of some of the ideas and arguments in Marxist-Leninist classics.

The gang of four lost no time in using this issue to further their own ends, declaring that bourgeois rights were the economic base for the generation of capitalism and the capitalist class. They thus denounced the socialist principle of "to each according to one's work" and started raising a hue and cry against the so-called "empiricism" in an attempt to topple still more experienced, veteran cadres.

In April, Zhang Chunqiao came up with his theory of exercising "overall dictatorship" over the bourgeoisie. In August, Jiang Qing, Yao Wen Yuan et al. launched another movement to "Review *Water Margin* [a Chinese classic novel about the Northern Song Dynasty (960-1127 A.D.) farmers rebels, the head of whom advocated accepting amnesty and serving the emperor] in the press. Using Mao's critique of this novel, in which Song Jiang, leader of the farmers uprising, surrendered to the emperor, they attacked Zhou Enlai, insinuating that Zhou too was a capitulationist having surrendered to the capitalist-roaders.

But, no matter how the gang of four tried to make trouble and engaged in sabotage, there was rapid, marked improvement in the national situation after the overhauling campaign. The results of the implementation of the 1975 national economic plan were: total output value of industry and agriculture increased by 11.9 percent over the previous year. Of this, the total output value of agriculture increased by 4.6 percent; that of industry, 13.1 percent. Among the major products, the output of grain registered an increase of 3.3 percent; cotton, a decrease of 3.3 percent; steel increased by 13.1 percent, raw coal, 16.7 percent; crude oil, 18.8 percent; electricity, 16 percent; cotton yarn, 16.9 percent; the volume of railway freightage, 12.9 percent. Budgetary investment in capital construction, plus funds raised by the local governments, reached the general scale of 39.2 billion yuan. The number of large and medium-sized projects under construction was 1,539, with 167 of them completed and going into production and another 310 partially going into production. Newly added fixed assets ran up to 25 billion yuan. By the end of that year, in units owned by the whole people, there were 64.26 million workers and employees on the payroll, 2.61 million more than the previous year. The natural rate of population growth was 15.7 per thousand, 1.8 per thousand less than the previous year. The total volume of

retail sales went up by 9.2 percent. The turnover of imports and exports came up to US\$14.75 billion, larger than any other year. Financial revenue amounted to 81.56 billion yuan and expenditure to 82.09 billion yuan, a deficit of 530 million yuan.

Although in that year the capital construction front was still overextended and the rate of accumulation was still too high (33.9 percent, or 1.6 percent higher than the previous year, about the same as that of 1971), although there was an unfavourable balance between revenue and expenditure and the number of workers and employees increased a bit too fast, the economy as a whole showed progress in that year.

The Fourth Five-Year Plan came to an end in 1975. When checked up with the readjusted Outline Programme for the Fourth Five-Year Plan (revised draft), the results of the implementation of the plan were as follows: the plan for the gross output value of industry and agriculture was fulfilled by 101.7 percent. The plan for the total output value of agriculture was fulfilled by 104.5 percent; for industry, fulfilled by 100.6 percent. Twenty-five of the 51 major economic targets listed in the plan were not fulfilled. Targets for the 18 of the 30 major heavy industrial products listed in the plan were not fulfilled. Targets for four of the 11 light industrial products too were not fulfilled. The plan for grain output was fulfilled by 103.5 percent; for cotton, by 95.2 percent; for steel, 79.7 percent; for raw coal, 109.5 percent; for crude oil, 110.1 percent; for electricity, 103.1 percent; for cotton yarn, 96.8 percent; for the volume of railway freightage, 98.7 percent; for budgetary capital construction investment was fulfilled by 101.6 percent. Financial revenue amounted to only 98 percent of the planned figure.

In March and April 1975, the State Planning Commission held a forum attended by people from various departments concerned to study the proposal of the Fourth National People's Congress to work out a 10-year planning. Having collected the opinions and suggestions of the greater administrative regions and the various departments, the Commission drafted the Outline Programme for the Ten-Year Planning of the Development of the National Economy Between 1976 and 1985 (Draft).

It was submitted to the National Conference of Planning for deliberations in October after deliberations and revisions by the Political Bureau of the Party Centre with the approval of Mao Zedong.

Section III Another Setback to the National Economy During the "Beat Back the Right Deviationist Attempt To Reverse Correct Verdicts"

At first Mao Zedong backed Deng Xiaoping in his work. In 1974 and 1975 Mao had declared that it was better to achieve stability and unity and expressed his wish for lifting up the national economy. But at the same time he persisted in his erroneous theories and principles in regard to the "cultural revolution," and, therefore, could not stand Deng Xiaoping's acts of systematically rectifying the mistakes of the "cultural revolution." this was the basic reason why Mao launched the so-called movement "to criticize Deng and beat back the Right Deviationist Attempt to reverse correct verdicts."

The gang of four had always been looking for trouble in the hope of seizing power and forming their own cabinet in the troubled waters. In their eyes, Zhou Enlai, Deng Xiaoping and some others were the main stumbling block standing in their way to seize Party and state power.

Beginning from November 1975, the gang of four staged a so-called "great debate on educational revolution" at Qinghua University and then spread the movement "to beat back the right deviationist attempt to reverse correct verdicts" to the whole country. They alleged that the correct policies and measures adopted by the Party Central Committee and the State Council since 1975, when Deng Xiaoping was in charge of the day-to-day work of the central authorities, was "a rightist trend to reverse the verdicts" and the rectification campaign in various fields as "a restoration."

They also branded the three documents — The General Outline on Work in Various Fields in the Whole Party and the Whole Country, the Outline Report on the Work in the Chinese Academy of Sciences, and Some Questions Concerning Speeding up Industrial Development — as "three major poisonous weeds" designed for the "restoration of capitalism" and criticized them as such.

During this period, the gang of four concocted a theory holding that the veteran cadres had already degenerated into bourgeois elements inside the Party, a so-called theory aimed at toppling the numerous leading cadres in the Party, government and the military.

They dismissed the four modernizations as a drive to "take the

capitalist road," alleging that "once the satellite is sent into the sky, the red flag is down on the ground." They denounced socialist production and construction as a manifestation of the theory which "considers the productive forces above and over everything else," and the principle of "to each according to one's work" as "the base engendering bourgeois elements," and the Party's concern for people's well-being as stimulating the public with "material incentives," the export of oil as "national betrayal," the import of technology and equipment as "worshipping things foreign," strengthening enterprise management as a measure "to oversee, to check and to suppress [the workers]," and last but not least, socialist economic accounting as an expression of "profit first."

During this period, many economic organs were reorganized, many leading cadres toppled and once again economic organs at various levels were paralyzed or semi-paralyzed. The gang of four backed up the backbone of the various factions everywhere born in the "cultural revolution" to undermine production and seize power amidst the turmoil. With their direct participation, the Zhengzhou Railway Bureau was thrown into utter chaos. In 1976 there were 12 bureau-wide railway traffic jams, which partially paralyzed the Beijing-Guangzhou Railway; the bureau's freight haulage was 14 million tons less than what was envisaged in the state plan. It carried 11 million tons less coal, which caused a shortage of coal supply in 12 provinces and municipalities. That is, half of the country was adversely affected. Elsewhere in the country, over a dozen trunk railway lines were often blocked and these railways carried 46 million tons less of cargo, causing a shortage of coal and electricity in many places and a considerable number of factories to cease production or produce less.

The National Conference of Planning held at the end of 1975 and January 1976 discussed the 10-year planning for the development of the national economy and the 1976 plan. It also intended to discuss the question of overhauling economic work and that of structural reforms. But due to the movement of "beat back the Right deviationist attempt to reverse correct verdicts," many questions could not be discussed at the conference in all seriousness or were not even placed on the agenda at all.

According to the original 1976 plan, the total output value of industry and agriculture was to increase by 7 to 7.5 percent, compared with the previous year. Of this, industry was to increase by 8.2 to 9 percent;

agriculture, 4 percent. As to the output of the major products as envisaged in the original plan, grain was to reach 290 million tons; cotton, 2.6 million tons; steel, 26 million tons; raw coal, 480 million tons; investment in capital construction as arranged by the state, plus funds raised by the local authorities, was to amount to 37.8 billion yuan; large and medium-sized projects under construction to number 1,100.

But between January and May, steel output was 1.23 million tons short. The output of chemical fertilizer, cotton yarn and other major industrial products was also far lower than the set quotas. The supply of commodities on the market was thus 1.4 billion yuan less in terms of value. Financial revenue was 2 billion yuan less than planned. Fulfilment of the original 1976 national economic plan was by now out of the question.

Under the circumstances, the forum on national planning held in July 1976 proposed to adjust the original plan. With the consent of the Political Bureau after a discussion of this matter, steel output was cut down from 26 million tons as originally planned to 24 million tons; investment in capital construction was to be 2 billion yuan less than first planned; commodities in stock for export to the value of 2 billion yuan were to be made available on the home market; imports were to have a reduction of US\$500 million; the collective purchasing power to be reduced by 10 to 20 percent; the wages increase as planned earlier was to be postponed. But the gang of four did their utmost to make difficulties, so the proposal to readjust the plan as discussed at the forum was never put into effect.

The year 1976 was an eventful one, also the year in which the national economy suffered the most serious damages caused by the gang of four. Zhou Enlai, Zhu De and Mao Zedong passed away one by one; Deng Xiaoping and some others were framed and forced to step down. Thinking that the time had come, the gang of four now stepped up their activities to seize power.

The 1976 economic plan was not satisfactorily fulfilled. The total output value of industry and agriculture registered only a 1.7 percent increase over the previous year, far lower than the planned rate of growth. Of this, agriculture registered a 2.5 percent increase, 1.5 percent less than the planned target; industry, a 1.3 percent increase, lower than the plan by 6.9-7.7 percent. About the major products, grain increased by only 0.6 percent over the previous year, or 99 percent of the plan; cotton showed a drop of

13.7 percent, or 79 percent of the planned figure; steel, 14.4 percent less, 79 percent of the plan, even lower than the 1971 production level; raw coal made only a 0.2 percent increase, an overfulfilment of the plan by 1 percent; crude oil increased by 13.1 percent, meeting the minimum target set in the plan; electricity, a 3.7 percent increase, or 96.3 percent of the plan; cotton yarn, 7.1 percent less, 88 percent of the plan; the volume of railway freightage was 5.5 percent less, or 93 percent of the planned volume. Budgetary investment in capital construction completed was 29.4 billion yuan, or 35.95 billion yuan, if investment funds raised by the local governments were included, but it was still 3.23 billion yuan less than the previous year. The rate of fixed assets turned over for use was 58.9 percent, 5 percent less than the previous year. Large and medium-sized projects fully completed numbered 85, 82 fewer than the previous year and so this was one of the years having the worst investment results since the founding of the People's Republic. The total volume of retail sales amounted to 133.9 billion yuan, 5.3 percent over that of the previous year; the turnover of imports and exports was US\$13.44 billion, 9 percent less than the previous year. Due to the gang of four's sabotage, construction of many imported projects remained unfinished for a long time and when they did go into production, they operated below the designed capacity. By the end of the year, the number of workers and employees in units owned by the whole people was 68.6 million persons, 4.34 million more than the previous year, 3.04 million more than the planned figure. The natural rate of population growth was 12.6 per thousand, 3 per thousand less than the previous year. In 1976, state-run enterprises throughout the country suffered a total loss of 17.7 billion yuan, three times as much as the loss in 1965. In 1976, financial revenue was 77.66 billion yuan, 3.9 billion yuan less than the previous year. In this year, there were 2.96 billion yuan in the red. What was more, there again appeared grave disproportions between the main branches of the national economy.

In the three years from 1974 to 1976, as a result of the gang of four's sabotage, the national economy had traversed a tortuous course with "two ups and downs." In 1973, it showed a sign of picking up after the economic readjustments sponsored by Zhou Enlai. But in 1974, the economy again declined when it was undermined by the movement to criticize Lin Biao and Confucius; then just when it had somewhat recovered after a campaign of overall consolidation sponsored by Deng Xiaoping in 1975, the developing

economy was once more seriously devastated during the movement of "beat back the right deviationist attempt to reverse correct verdicts" that took place in 1976.

According to an estimate made by authorities concerned, due to the gang of four's sabotage, the total output value of industry and agriculture, compared with the national economy under normal conditions, sustained a loss of 100 billion yuan, and the state gathered 40 billion yuan less in financial revenue.

XXVII Ten Years of Turmoil and Lessons Therein

Section I Aftermath in General and Achievements In Certain Fields

During the 10 years of internal strife, we experienced three major ups and downs in economic development. The first economic cataclysm embodied an excellent situation of vigorous development of the economy in the first half of 1966, followed by a sharp decline due to unprecedented sabotage in 1967 and 1968. The second economic cataclysm took place between 1969 and 1973, during which the economy, after an overhauling, began to pick up and grow, but met setbacks again in 1974. The third one showed that in 1975 there was some progress after the readjustment of the national economy, but it had to take very grave consequences resulting from the interference by the two counter-revolutionary cliques of Lin Biao and the gang of four and their sabotage, and also from the influence of the wholesale "leftist" mistakes.

The following are the main consequences:

(1) Serious imbalance in the main proportions in the national economy.

✓ In the proportionate relations between accumulation and consumption, the rate of accumulation had always been pretty high since 1970. During the First Five-Year Plan period, when there was a fairly well-coordinated development of the economy, the rate of accumulation was, on an average, 24.2 percent, but it went up to 26.3 percent in the Third Five-Year Plan, then 33 percent in the Fourth Five-Year Plan and finally to 34.1 percent in 1971.

The growth of the total national income being rather slow, in the circumstance of a rapid population growth, a rate of accumulation that high would as a matter of course affect the people's regular consumption. Moreover, in those years, accumulation for non-productive purposes, such as housing, and urban public utilities also continually went down in its proportional share, which was 40.2 percent during the First Five-Year Plan, and 25.5 and 22.4 percent respectively during the Third and Fourth Five-Year Plans. This further aggravated the imbalance in the proportions of accumulation and consumption.

In industrial line-up, to begin with, due to lop sided emphasis on steel production, which was taken as the key link, and on intensified war preparedness, there was a grave imbalance in the proportions among agriculture, light and heavy industries.

In the total national investment, the share of heavy industry was only 36.1 percent during the First Five-Year Plan period, but later jumped to 51.1 and 49.6 percent respectively in the Third and Fourth Five-Year Plans.

Between 1966 and 1976, of the gross value of industrial and agricultural output, heavy industry grew from 32.7 percent to 38.9 percent; agriculture dropped from 35.9 percent to 30.4 percent; light industry from 31.4 percent down to 30.7 percent.

Next, within agriculture itself, due to lop sided emphasis on grain production, which was taken as the key link, cultivation of cash crops, forestry, animal husbandry, sideline production and fishery were all pushed aside. Things had gone to such extremes as destroying forests for reclamation and building dykes to reclaim land from lakes to boost grain production. This also seriously impaired the ecological balance.

Third, within industry itself, due to overemphasis on iron and steel industry and industry of machine building processing, there was discord between the processing industry and the raw and other materials industry. Between 1966 and 1976, of the value of China's heavy industrial output, the

share of the manufacturing industry went up from 50.5 percent to 52.8 percent, whereas that of the raw and other materials industry dropped from 38.3 percent to 34.9 percent. Many products of the machine building processing industry were technically backward, of poor quality, and were not what exactly the thing wanted on the market. They were overstocked.

Fourth, in the proportion between industrial and agricultural production on the one hand and communications and transport on the other, due to overemphasis on the construction of new railway lines in the interior while ignoring the reconstruction of existing railway lines in places with busy transport, the transport capacity of the trunk railway lines was lagging more and more behind, or even holding back, the development of the national economy.

Between 1966 and 1976, the gross value of industrial and agricultural output nearly doubled. Of this, that of industry grew by 125 percent, and yet, in contrast, the revolving volume of freight transport grew less than 77 percent, of which that of railway freight transport registered a mere 28.2 percent increase. ✓

(2) The structure of economic management getting rigid.

After the socialist transformation was basically completed, the defects of the existing structure of economic management gradually came to the fore. The main troubles were that the power of economic management being excessively concentrated in the hands of the state's administrative departments with enterprises and individual labourers having no say, which was their due; too much direct control through planning while ignoring the part the economic levers may play in regulating the economy; all financial revenues and expenditures were handled by the state in a unified way, "everybody eating from the same big pot," so to speak, with enterprises and individuals bearing no economic responsibilities whatsoever, unified allocation of means of production and state monopoly in purchasing and marketing consumer goods had no direct link between the productive units, the suppliers and the retail shops; and economic management was based on administrative systems and divisions, which severed the inner ties within the economy itself.

Beginning from 1956, the government came to be aware of these problems and on many occasions tried to effect reforms in the economic structure. But under the prolonged influence of the erroneous "leftist"

guiding thought, we could never find where the cause of the problem lay, therefore, failed to achieve anything.

During the 10 years of turmoil, with the accent on making preparations for war, many economic powers had been transferred to the local administrative organs but no greater power was ever granted enterprises and the various economic organizations and so, became a conspicuous lack in vitality the national economy as a whole.

In 1970, the managerial power of enterprises, including many big ones, was transferred to the local authorities in the hope that the various provinces would become self-sufficient as quickly as possible in the major products. Though this was a measure conducive to the development of local industries by the provincial authorities, it also led to the construction of redundant projects, to production in a blind way and to the establishment of regional structures of their own.

On the other hand, quite a few big enterprises transferred by the central authorities to the local authorities found it more difficult to operate because their nationwide links between supply, production and marketing had been severed and the local authorities were not in a position to solve this problem. So these enterprises had to approach the central authorities for direct supplies and, in this way, found themselves now under multi-leadership.

In the relationship between planning and the market, due to many years of turmoil and also due to the "leftist" guiding thought, there were quite a number of miscalculations in economic policy decisions and planning often failed to give guidance. Meanwhile, the circulation of goods became more and more limited in scope and the channels for the interflow of goods also became fewer, when in the countryside, land lots reserved for private use were time and again taken away from the farmers and family side-line production was banned, and in cities and townships, individual economy was eliminated and collective economy discriminated against.

In 1968, there were even provisions prohibiting rural people's communes, production brigades and commune members to engage in commerce. In 1970, it was reiterated that with the exception of state-run commercial establishments, marketing and supply co-operatives and licensed pedlars, no other units or individuals were allowed to engage in trading.

By 1975, it was officially announced that all marketing and supply co-

operatives were to be merged with state-run commercial establishments, that all industrial departments' own retail outlets, with the exception of a few, should be handed over to, and run by, commercial departments, and that all urban fairs should be closed down and rural fairs be strictly limited. As to prices, they had been frozen since 1967, which eliminated at the very roots the part the market can play in regulating the economy.

(3) Overall decline of economic results.

One very outstanding feature of this period was the widening gap between input, which was constantly on the rise, and output, which was on the decline day by day. This could be best illustrated by the fact that the growth of national income for every 100 yuan accumulated had dropped from 35 yuan in the First Five-Year Plan period to 26 yuan and then to 16 yuan in the Third and Fourth Five-Year Plan periods. ✓

In industry, profits and tax levies from every 100 yuan of funds went down from 34.5 yuan in 1966 to 19.3 yuan in 1976.

In commerce, the returns from every 100 yuan of funds dropped from 20 yuan in 1957 to only 9.7 yuan in 1976.

In capital construction, the rate of commission of the fixed assets dropped from 83.7 percent during the First Five-Year Plan period to 59.5 and 61.4 percent respectively in the Third and Fourth Five-Year Plan periods.

(4) People's living standards greatly affected.

Wages, on the average, instead of any rise, went down by 4.9 percent between 1966 and 1976. Wages of workers and employees in various departments, with the exception of a part of them who got a raise in 1971, remained the same. Meanwhile, as urban population continued to grow, little attention was paid to urban construction of more houses, schools and hospitals. Many light industrial and textile goods were of poor quality but high-priced and for many years there had been no improvement in variety and designs. There was a serious shortage of non-staple food. Retail outlets and service trades were either merged or reduced in number and size. Life in the urban areas was getting harder and more inconvenient.

The average net income of the farmers more or less reached a plateau in the decade. Because in the countryside there was undue emphasis on grain production, which was taken as the key link, and prices for farm produce and sideline products were under rigid control, farmers earned very little after a

year's hard toil. In a fairly large number of places, where the land was barren, with low yields, many farmers did not have enough food and clothing; they had to rely on state relief or roam from place to place and beg for a living.

Problems listed above became increasingly acute over the decade, culminating in an overall "chronic disease" in our national economy that would not find an effective cure for some time.

Still, thanks to the untiring efforts made by Zhou Enlai and other revolutionaries of the older generation, by the whole Party and the whole nation, the damaging effects of the "cultural revolution" were reduced to a certain extent and our national economy still managed to make some progress in certain fields.

Our main achievements were:

(1) Early steady growth of grain production.

In the decade there were improvements in the conditions of agricultural production in our country. The many water conservancy projects built in the previous years had been further equipped with necessary accessories to operate with good results. Its modernized equipment, in particular, had reached a much higher level.

In 1976 the output of tractors and walking tractors came to 73,700 and 240,000 pieces respectively, 6.7 times and 66 times respectively as much as that in 1965. One-third of the nation's farmland was cultivated by machinery. In 1976 the number of power-driven drainage and irrigation machinery in the countryside was 5.9 times of that of 1965, while the acreage under irrigation by electric pumps made up 53.9 percent of the total acreage under irrigation, more than twice as much as that of 1965.

In 1976, chemical fertilizer used in farming amounted to 5.244 million tons, three times as much as that of 1965, with 7.8 *jīn* (3.9 kilogrammes) of chemical fertilizer for every *mú* (1/15 hectares) of land under cultivation, 3.1 times as much as that of 1965.

In 1976, electricity used in farming averaged 13.7 kwh per *mú*, 5.7 times as much as that of 1965. There were 48,000 lorries in use in the countryside, 4.3 times as much as that of 1965.

Thanks to the favourable conditions mentioned above, the development of agriculture in the decade still grew at the average rate of 3.9 percent. Grain production grew steadily, reaching 286.3 million tons in 1976, 91.8 million tons more than 1965. Thus, in spite of a rapid population

growth, average per capita grain output increased from 272 to 305 kilogrammes.

The total output of other crops too registered some increase, but there was practically no increase at all in its per capita average. The output of oil-bearing crops and cotton, for instance, went down by 20 and 25 percent respectively, compared with 1965.

(2) Construction of a number of giant, technically advanced industrial enterprises.

Taking the lead was the oil industry. During the decade, our oil deposits had been further prospected and verified. The Daqing Oilfield increased production by a wide margin for several years running, emerging a giant enterprise with an annual output of 50 million tons of crude oil. The Shengli Oilfield in Shandong Province and the Dagang Oilfield in Tianjin, too, were beginning to take shape. Crude oil output in 1976 topped 87 million tons, 6.7 times of the 1965 output.

The petroleum chemical industry grew up rapidly with the increase of the crude oil output. The 13 giant chemical fertilizer devices imported and going into construction since 1973 had a total production capacity of turning out 3.57 million tons of synthetic ammonia and 5.8 million tons of urea. The giant chemical industry and chemical fibre devices imported in the same period for Beijing, Shanghai, Liaoyang in Liaoning Province, and Changshou in Sichuan Province were in the process of installation.

In the metallurgical industry, some new key enterprises were built during these years. They included Panzhihua Iron and Steel Complex in Sichuan Province, Jiuquan Iron and Steel Complex in Gansu Province, the Seamless Steel Tubing Mill in Chengdu, Sichuan, and the Aluminum Works in Guizhou Province.

The 1.7 metre rolling machine for Wuhan Iron and Steel Company imported in that period, which operated entirely with the latest technology introduced from abroad, had a designing capacity of handling 3 million tons of hot rolling steel, 1 million tons of cold rolling steel and 70,000 tons of silicon steel sheets. Construction of this project, began in 1975, was completed in 1978 and went into production in the same year.

Among the other factories built in this period were: No. 2 Auto Works in Hubei Province; Deyang No. 2 Heavy Machinery Works in Sichuan; Fuping Mangler Works in Shaanxi; Dazu Auto Works in Sichuan; giant

collieries at Liupanshui in Guizhou, at Baodingshan and Furongshan in Sichuan; and at Yanzhou in Shandong; as well as hydro-power and thermo power stations at Liujiaxia in Gansu and Danjiangkou in Hubei. The famous giant Gezhouba Hydro-Power Station in Hubei and the Douhe Power Plant at Tangshan in Hebei installed with imported equipment too were under construction.

(3) Construction of inland trunk railway lines and the Changjiang Bridge.

The 1,085-kilometre long Chengdu-Kunming Railway whose northern section was extended to Ganluo and open to traffic in 1966, was further extended to Xichang after its most difficult section was built in 1970, to link up with its southern section, whose construction was completed at the same time. The whole line began to operate in 1971.

The 820-kilometre long Hunan-Guizhou Railway, which began to extend westward from Jinzhushan in Hunan in 1970, reached Guiding in Guizhou in 1974, thus bringing about the completion of the main section of this line.

The 760-kilometre long Jiaozuo-Zhicheng Railway (crossing the Henan and Hubei provinces), whose construction began in 1965, was completed in July 1970. This was followed by the construction of the Tai-Jiao Railway line (from Wuyang in Shanxi to Xiuwen in Henan with a length of 209 kilometres) in the north and the Zhiliu Railway line (from Zhicheng in Hubei to Liuzhou in Guangxi with a total length of 885 kilometres) in the south. Both lines were completed in 1979.

Another newly built line was the Xiang-Yu Railway running between Xiangfan in Hubei and Chongqing in Sichuan, which was linked at Ankang by another new line with the Bao-Cheng Railway at Yangpingguan. In north China the Jing-Yuan (Beijing to Yuanping in Shanxi) Railway was open to traffic and another line, the Tong-Tuo Railway running from Tongxian County in Beijing to Tuozeitou in Hebei was built.

Then there was the Changjiang Bridge in Nanjing, the magnificent 6,700-metre long double-deck rail and highway bridge of the world's advanced standard, whose construction was started in 1959 and completed in 1968. Trains moving in opposite directions on the bridge can cross the river easily in six minutes.

In 1974, China's first long-distance oil pipeline running from Daqing

Oilfield to Qinhuangdao in Hebei was built, and another one from Qinhuangdao to Beijing and still another one from Linyi in Shandong to Nanjing in Jiangsu. In 1976, we also built a middle coaxial 1,800 channel carrier telecommunications line with a total length of over 1,700 kilometres and a microwave telecommunication line linking 20-odd provinces, municipalities and autonomous regions in the country. Beijing and Shanghai each built a satellite ground station.

(4) Some major achievements in science and technology.

During this period, our scientists and technicians, in defiance of the pressures brought by the gang of four to bear upon them, overcoming numerous difficulties, succeeded in carrying out research work in sophisticated scientific and technological projects, with accomplishments in the cultivation and popularization of non-glutinous hybrid rice, nuclear technology, and artificial satellites and rocket carriers.

Research work in cultivating hybrid of paddy rice seeds began in other countries several decades earlier, but no one had ever succeeded in using them in actual production. Chinese agronomists began to take up research in this field in 1964. In 1972, a nationwide research work organized jointly by the Chinese Academy of Agricultural Science and the Hunan Provincial Academy of Agricultural Science resulted in cultivating a non-glutinous hybrid rice seeds that yielded generally about 20 percent more than other good varieties of rice seed. This was a great contribution to increasing grain production in our country.

China on October 16, 1964, exploded its first atom bomb. On May 9, 1966, it carried out a nuclear test containing thermonuclear substances and on June 17, 1967 successfully exploded its first hydrogen bomb, that is, 32 months after the explosion of its first atom bomb — at a pace that was faster than any other nuclear power. On September 23, 1969, we again successfully carried out an underground nuclear test.

On October 27, 1966, China carried out its first test of launching a guided missile with a nuclear warhead; it was a normal flight and the rocket struck the targeted area precisely. On April 24, 1970, China successfully launched its first artificial earth satellite weighing 173 kilogrammes. On March 3, 1971, it again launched an artificial earth satellite for scientific experiments weighing 212 kilogrammes, and in flight it successfully sent back various data of scientific experiments. On November 26, 1975, China

launched an artificial earth satellite, which after a normal flight, returned to the earth according to plan. This made China the third country after the United States and the Soviet Union capable of retrieving a satellite.

During this period China also provided other developing countries with a considerable amount of economic aid even though its own ruined economy was in a predicament.

These achievements, however, could not help China get out of the trouble caused by the lopsided development of the economy in the 10-year long "cultural revolution." But they clearly suggested that without this unprecedented disaster, our economic construction could have been much faster with still greater achievements.

Section II Historical Lessons

The "cultural revolution" had brought disaster to our country and people and the lessons were a most painful. During the period, apart from repeating the "leftist" mistake of rushed advance in the 1958 "big leap forward," there were lessons from which to learn.

(1) Without political stability and unity, a normal development of the economy is out of the question.

Politics after all must be adapted to a certain type of economy and serve the economic base. The politics of the proletariat serves the socialist economy by ensuring the socialist nature of the economy and by ensuring stability and unity to promote the normal development of the economy.

After the socialist transformation of agriculture, handicraft industry and capitalist industry and commerce was in the main completed in the early days of liberation, large-scale class struggle in the period of revolution had come to an end. The focus of work of the Party and state thus should have been shifted to socialist construction centring on economic construction.

But the "cultural revolution" persisted in taking class struggle as the key link and launched an "all-round civil war" to seize power from the so-called capitalist roaders, thus plunging the whole nation into chaos. The counter-revolutionary cliques of Lin Biao and the gang of four cried that "anything else may be forfeited for the sake of politics" and ridiculed those who wanted to promote production as "having been obsessed by the urge to develop production." The aftermath of the attack by Lin Biao and the gang

of four: In this political upheaval our economy again and again became either stagnant or moved backward, or was even in great trouble.

Practice in the "cultural revolution" showed us that without stability and unity, there could be no normal development of the economy. After socialist transformation was in the main completed, the main contradiction in our country has been one between the people's ever growing material and cultural needs on the one hand and a backward productive force on the other. This being the case, developing the economy was, had been and will be the essential task of the state power of the proletariat. ✓

Naturally, before the ultimate fulfilment of the tasks of our socialist revolution, it is still necessary to launch class struggle within certain limits for the sake of protecting and developing the productive force. But once the situation of class struggle is overstated, once the class struggle that is going on within certain limits is magnified to appear as a nationwide antagonism, and once class struggle is taken as the key link in handling each and everything, or once even a so-called political revolution is launched for "one class to overthrow another," then we have certainly carried things too far, and, far from propelling social progress, this will emerge a formidable destructive force in the course of economic development.

(2) Ideological and theoretical fallacies will certainly give rise to erroneous economic policies.

To quote Lenin, "Without a revolutionary theory, there can be no revolutionary movement." (Lenin: "What Is To Be Done?") This explains the importance of theory. But the universal truth of Marxism-Leninism must be integrated with the specific practice in a specific country. Revolutionary practice continues to test and develop theories, proving whether they are right or wrong. If scientific theories were followed as dogma without taking into consideration of the actual conditions in a country concerned, or if our practice was under the guidance of the so-called theories, that is, Marxist theories that had been misinterpreted, then these "theories" would never promote economic development but, on the contrary, would certainly strain or hamper its development.

Such was the case in the 10 years of internal strife. On certain major economic theoretical problems, there was confusion between right and wrong. For instance, there was a misunderstanding of the "bourgeois rights" Marx spoke of in his *Critique of the Gotha Programme*. The "bourgeois

right" which manifests the principle of exchange of equal amount of labour in distribution according to work done was misinterpreted as if distribution according to work done itself was a right bourgeois in nature, and the "bourgeois rights" in the distribution of the means of subsistence were misinterpreted as if bourgeois rights exist practically in every aspect of the economic and social relations. Bourgeois rights which manifest distribution according to work done and which should be refuted in a communist society were thus misinterpreted as abuses that should be eliminated in a socialist society.

Again, Lenin's thesis that "small production engenders capitalism and the bourgeoisie continuously, daily, hourly, spontaneously, and on a mass scale" (Lenin: "Left-Wing Communism, an Infantile Disorder") was applied in a mechanical way. This viewpoint of Lenin's we know, put forward as it was by Lenin in 1920 soon after the victory of the October Revolution, when the workers and peasants' political power under proletarian leadership was not yet very secure, when small peasant economy had yet to be transformed, and when *kulaks* were engaged in speculative activities unchecked, was now applied to China during its period of socialist construction after socialist transformation had been completed a long time ago.

The urban and rural economic policies worked out in accordance with these wrong theories thus swung, as a matter of course, increasingly to the "left" and became more and more divorced from the reality in China. The counter-revolutionary cliques of Lin Biao and the gang of four, in turn, pushed these erroneous theories further to their extremes, dismissing sweepingly the adherence to socialist ownership, to the distribution system and relations between people in a socialist society as "revisionism" and toppling each and every cadre who kept to the socialist road as "capitalist roaders"!

The result: In the 10 years, individual economy was eliminated, collective economy was restrained, exchange of commodities sagged, while many a productive channel was blocked. State-owned enterprises engaged in production without any regard for cost and ran business without any regard for profit or loss and huge amounts of social wealth were simply wasted. In distribution, equalitarianism was allowed to prevail, so that the pay was just the same for everybody — for those who did a good job and those who did a poor job, for those who worked more and those who worked less, and for

those who worked and those who did not — every body living on the state by "eating from the same big pot." All this greatly impaired our socialist economic system and seriously dampened the working people's enthusiasm.

Practice of the "cultural revolution" once again showed us that in order to give correct theoretical guidance, it is necessary to proceed from China's own reality and take practice as the only yardstick in examining truth. China is economically a rather backward country with its productive force at a low level. Under the condition that socialist public ownership is occupying a predominant position, it is necessary to allow many kinds of economic sectors and economic forms to co-exist in long time to come.

Early at the Sixth Plenary Session of the Eighth Central Committee, the Chinese Communist Party already pointed out: "To continue to develop commodity production and to continue to retain the principle of 'to each according to one's work' are two major questions of principle in developing the socialist economy." Accordingly, in building socialism with Chinese characteristics, we must adhere to the socialist principle of "to each according to one's work" and adopt its various effective, specific forms. At the same time, we must develop commodity production in a big way, develop different economic forms and numerous circulations channels, and, under the unified leadership of state planning, make flexible use of such economic levers as prices, taxation and interest rates, make full use of the part commodity, money and market can play in regulating the economy, revitalize the home market and strengthen economic accounting in enterprises and promote the development of the socialist economy.

(3) It is necessary to give a correct estimation of the international situation and there should be no overanxiety in changing the regional distribution of the productive forces.

Whether the regional distribution of the productive forces is rational has an important bearing on both economic development and security in national defence. Due to historical reasons, the distribution of the productive forces in our country is most uneven with most of the modern industries concentrated in the eastern coastal areas and a rather backward economy in the vast hinterland which is rich in resources.

For the purpose of exploiting the interior's rich natural resources, carrying out nationwide socialist economic construction and guarding against the menace of enemy attacks from without, it is imperative to pay

attention to intensifying, energetically, industrial construction in the interior, gradually changing the irrational regional distribution of the productive forces and building up a strong strategic rear.

Mao Zedong in his "On Ten Major Relationships" correctly elaborated the relationships between industries in the coastal areas and in the hinterland, between economic construction and national defence build-up.

But in the middle of the 1960s, especially in early 1970s, there had been an overestimation of the danger of war in the international situation and an undue emphasis on war preparedness, we were then a bit overanxious to speed up construction in the interior.

At that time we simply stressed the need to speed up inland construction without giving equal attention to economic development in the seaboard provinces. Another point was that we merely stressed the need to build up independent, economic networks in the inland provinces and autonomous regions without giving enough attention to making the most of their rich natural resources. The third point was overemphasis on the development of the defence industry and heavy industry connected with the defence industry, with little attention paid to necessary arrangements for the light industry, agricultural and sideline production, culture, education and health, housing for workers and employees. Last but not least, construction of many projects was guided by the erroneous principles of building them "by mountains, inside caves and wide apart," and of making designs in the course of construction, which resulted in tremendous waste and losses.

As a consequence, inland construction in the decade, which absorbed a huge amount of manpower, material and financial resources and comprised many key enterprises, as a whole, yielded very poor economic results. This aggravated the disproportions in the national economy and left over many serious problems.

As shown by practice, in appraising the international situation and the danger of war, one must be realistic and, while exercising proper vigilance, one must come to see that the world's people's struggle in unity is fully possible to delay or even prevent enemy invasion from without. One should, therefore, do everything to strive for a peaceful international environment for national construction and should not one-sidedly magnify the danger of war.

At the same time, there should be a full understanding of the hardship

and complexity of changing the industry's regional distribution. It is necessary to see the point that due to the poor economic foundation and poor communications in China's interior, conditions for construction there and results of the investments made were less favourable than in the seaboard provinces, and, therefore, it is impossible to bring about a fundamental change in the industry's regional distribution in a short time.

While making efforts to step up inland construction, we must make full use of the favourable conditions of a developed economy in the coastal areas, take good advantage of the natural resources in the inland provinces and autonomous regions, intensify coordination between the related districts and enterprises, organize military and civilian workforce to work together and do our utmost to strike an overall equilibrium and go ahead with our construction step by step. Only thus is it possible to gradually change this irrational regional distribution of the productive forces in our country.

(4) Scientific managerial system and strict labour discipline are indispensable to modernized large-scale production.

Modernized mass production is characterized by some basic features of its own, such as the wide use of machinery, a minute division of labour and close coordination on the basis of modern science and technology. To suit these special features, all branches of the national economy, enterprises in particular, are required to set up a sound, scientific managerial system, to be backed up by rigid discipline; or else, it will be impossible to carry on normal socialized large-scale production.

China has a rather short history in the development of modernized large-scale production. The managerial system and by-laws set up thus far are not very sound and have many loopholes. They need to be further improved and strengthened. But they had after all been helpful to the normal development of socialist economic construction that had taken place after the founding of the People's Republic.

In the 10 years of internal strife, all such managerial systems were almost without exception violated and trampled on so that in a considerable number of enterprises, production could not go on normally, the quality of their products went down, the number of accidents increased, and the economic results were very poor.

As shown by practice, management plays an especially important role in modern mass production. It is highly impossible to bring about the

modernization of the national economy if there is a lack of advanced technology, sophisticated equipment, and scientists and technicians to master these technology and equipment; it is equally impossible to achieve this end without an advanced managerial system together with an army of competent managerial personnel.

Accordingly, China in developing its economy need not only exert great efforts to expand its productive capacity and make progress in science and technology, but also pay serious attention to studying and importing the experience of the advanced countries in scientific management in order to improve our own, train our own managerial personnel and introduce to our country modernized management.

(5) Training scientists and technicians is an important strategic move having a bearing on the future of socialist modernization.

Science and technology play a key role in our modernization programme.

In the 10 years of internal strife, our intellectuals were widely discriminated against and suppressed and many scientists and professors were branded "reactionary academic authorities" and denounced and insulted as such. The development of science and technology in our country suffered serious setbacks and were badly undermined. In many fields approaching the world's advanced level after gruelling work since the birth of New China, there was again a widened gap between us and the world's most advanced level.

Education was the hardest-hit field during the 10 years of catastrophe. All schools were closed to "make revolution" and the campus of some institutes of higher learning for a while became the arena of infighting between different factions of rebels. "In the 17 years since liberation," according to an "appraisal" of the educational undertakings, "the educational line of the proletariat was in the main not followed, with the bourgeoisie exercising dictatorship over the proletariat and the world outlook of the faculty members being by and large bourgeois by nature."

A complete set of "leftist" policies were thus worked out on the basis of this "appraisal." These policies made it impossible for our educational institutes to turn out people for various professions. It was not until 1982 that our institutes of higher learning again began to graduate students having received regular training, that is, after an interruption of 15 years,

during which, we had graduated about 1 million fewer college students, and about 2 million fewer high school and intermediate training school students, causing a serious disproportion between learning of science and technology and economic development. There also appeared an over ten-year long gap in our ranks of scientists and technicians.

(6) The need to check the population growth in a planned way.

China is the most populous country in the world. Its huge population is the primary factor in its national conditions. But, over a long period, this essential, restrictive factor affecting China's economic development, did not attract our proper attention. We began to take notice of this problem and stress the need for family planning in the 1960s, but during the 10 years of internal strife this work was for some time left almost unheeded. Thus, while material production was being impaired, our population grew unchecked for a long time to result in a population explosion — an increase of nearly 200 million in 10 years.

Because of the size of our population, even though we have done our best to check the birth rate, the absolute number of population growth will still be very large, which constantly increase the burden on the supply of the means of subsistence, on schools providing students the chance of receiving education of a higher grade and on employment.

Due to this population explosion, little is left of the newly added national income to increase funds for construction or to improve the people's living standards, because the money is spent almost entirely on providing the newly added populace with the necessary means of subsistence. This inevitably affects the development of the national economy. Moreover, when the question of unemployment is not well handled, it is bound to give rise to serious social problems. Our failure to check the population growth is, therefore, a profound lesson from which to learn.

(7) Only by sticking to the policy is it possible to speed open socialist modernization.

Our basic policy is, of course, to develop socialist construction by our own means. But this cannot possibly take place in isolation, aloof from the outside world. At all times our economic construction need have contacts with other countries. To have ties with the world market, to expand our foreign trade, to import advanced technology, to make use of foreign capital

and develop international economic and technological co operation in various form all this will not hamper but certainly enhance our ability of self-reliance and quicken the pace of the drive for the four modernizations.

In the early 1970s, thanks to the efforts made by Mao Zedong and Zhou Enlai, China's intercourse with the Western capitalist countries made big strides as a result of the normalization of its relations with the United States and Japan; the import of complete sets of advanced equipment at that time by taking advantage of the favourable situation on the diplomatic front helped our economic development a great deal.

But the gang of four, by fabricating this or that incident, made difficulties for the continued development of our economic intercourse with other countries. Because we had missed the opportunity for developing the economy on the strength of the increasingly vital economic activities of the nations, we had retarded considerably the progress of the four modernizations.

As shown by practice, at present, in our economic work, we need all the more to break away from the "leftist" ideological clutches of "keeping the door shut and locking the country up," which would only lead us into a rut. We need to unswervingly stick to an open policy. We must make full use of our own advantages to make our manufactured goods find their way into the world market and import advanced technology. We must in the complicated international exchanges learn fast the art of expanding foreign trade and economic and technical co operation with other countries. We must make full use of the favourable conditions in our coastal areas and continue to expand and strengthen our ties and co operation with all countries and people ready to make technical exchanges with us on the basis of equality and mutual benefit so as to speed up our socialist modernization on the strength of the world's advanced experience and technology.

Part V

The Period of Socialist Modernization

XXVIII National Economy Fluctuates in Advance

Section I Speedy Recovery of the National Economy

In October 1976, the Party Central Committee cracked down on the gang of four and put an end to the 10 years of turmoil in the "cultural revolution." This was the beginning of a new epoch, an epoch of historical development in our country. But in the two years that followed, that is, prior to the convocation of the Third Plenary Session of the 11th Party Central Committee at the end of 1978, while the national economy was rapidly on the mend, there were new errors in our economic work due to our failure to clear up every aspect of the "leftist" mistakes that had long been in existence.

After 1976, our national economy, hitherto stagnant and on the decline, was able to make headway. In the first half of 1977, there were initial signs of the recovery of the nation's industry and communications. After March, its gross value of industrial output began to climb up month by month: a 4.4 percent increase in April over the previous month; a 11.7 percent increase in May; and 10.5 percent in June. The total output value of industry in the second quarter of the year was 36.9 percent higher than the first quarter; that of May and June surpassed the highest monthly output in history. The number of loaded railway carriages, which remained at 43,000 in February 1977, or 6,700 carriages less than the corresponding period in the previous year, rose to 51,000 in March, 500 more than the corresponding period of the previous year, and then to 55,000 in April, reaching an all-time high, and finally to 57,000 in June. Financial revenue, too, was looking up, striking a balance between revenue and expenditure with a slight surplus.

The years 1977 and 1978 saw natural disasters that were quite serious in the history of the young People's Republic. The size of calamity-stricken farmland was next only to that of 1960 and 1961. However, agriculture and even the national economy as a whole in these two years had recovered fairly quickly and made some progress.

The gross value of agricultural output in 1977 was 1.7 percent higher

than 1976 and in 1978 it was 9 percent higher than 1977. Grain output ran up to 286.3 million tons in 1976 and went up to 304.75 million tons in 1978. Cotton output in 1976 was 2,055,500 tons and soared to 2,167,000 tons in 1978. Total output of oil-bearing crops was 4,008,000 tons in 1976 and jumped to 5,218,000 tons in 1978. the amount of live pigs on hand, 280 million head in 1976, went up to 300 million in 1978.

The gross value of industrial output in 1977 increased 14.3 percent over that of 1976, and 13.5 percent in 1978, compared with that of 1977. Between 1976 and 1978, of the major industrial products, steel increased by 55.3 percent; raw coal, 28 percent; crude oil, 19.3 percent; electricity, 26 percent; chemical fertilizer, 66 percent; chemical fibre, 95 percent.

In the same period, the volume of railway freightage grew by 31 percent; total value of commodity sales by retail, 16 percent; total amount of imports and exports, 53.6 percent; financial revenue, 44.4 percent; 40 percent of the urban workers and employees had wage hikes and there was some improvement in people's livelihood.

Meanwhile, organizationally, the backbone forces of the gang of four were eliminated from the central government, the local governments and the various enterprises they had dug themselves in. Veteran cadres wrongly repudiated during the "cultural revolution" were rehabilitated one by one to take up leading posts once again.

In ideological and theoretical matters, we began to eliminate the "leftist" guiding thought. In economic theory, there were useful discussions centring on the following issues: (1) Denouncing the fallacy preached by the gang of four that "to each according to his work" is the economic base that generates capitalism and the bourgeoisie; reaffirming that "to each according to his work" is the socialist principle for distribution and affirming such forms of distribution as piece rate wage and bonus. (2) Laying bare the gang of four's motive of undermining production under the mask of refuting "the view point that the productive force is over and above everything"; affirming the decisive role of the productive force in the economic base and expounding that developing the economy is a fundamental task of a socialist country. (3) Clarifying the misunderstanding in commodity production; making it clear that commodity production should be developed in a socialist society and that in our country it is not that there is an overproduction but an underproduction of commodities. (4) On

the question of the economic structure, there is the need to give our enterprises, communes and production brigades necessary rights to run their own business, to control the economy through the economic levers and economic means, not just through administrative means, and the need to strengthen economic legislation and economic judiciary.

These discussions had hit the nail on the head. They produced good effects and played a useful part in improving our economic work.

In economic work, we also started restoring or putting forward some correct principles and policies.

In agriculture, both Sichuan and Anhui provinces issued documents in early 1978 to lay down economic policies in rural areas. These documents stressed the need to respect the right of the production brigades to run their own affairs and ruled out arbitrary, impracticable directions from the above; they stressed the need to lighten the burden of the commune members and act strictly in accordance with the principle of "to each according to his work"; they stressed the need to develop a diversified economy and give the green light to the development of family sideline production. The Party Central Committee in June and July 1978 approved and made comments on reports from some regions proposing to lighten the farmers burdens and punish some cadres at the grass roots level, who had done things against law and Party discipline. These documents, which were acted upon, helped promote the recovery of the rural economy.

In industry, the stress was on boosting production, on overhauling and consolidating enterprises, on restoring regulations and other institutions, on shaking up the leading personnel, and on strengthening the unity of the workers and employees. In April 1978, the central authorities distributed among the various industrial administrations, industrial and communications enterprises its Decisions on Some Questions Concerning Speeding up Industrial Development, to be carried out on a trial basis. It was a document that clearly listed things to be done in overhauling and consolidating enterprises. The various industrial departments began to restore the normal production and working order.

In science and technology, Deng Xiaoping, at the National Conference of Sciences held in March 1978 and the National Conference of Educational Work held in April, reiterated the important role of science and technology and of scientists and technicians in national construction. He pointed out

that science and technology was part of the productive force and the key to bring about the four modernizations. He emphasized that our scientists and technicians were part of the working class and an important force we rely upon. This greatly changed and elevated the social status of the intellectuals and aroused the initiative of our scientists and technicians.

Section II Errors in the Work of Giving Guidance To the Economy

In 1977 and 1978 the long pent-up enthusiasm of the broad masses for production was released, forming a formidable force that pushed the economy ahead. But due to our underestimation of the serious consequences of the 10 years of turmoil, we by mistake became overanxious for success in the development of the national economy. At first, the recovery of the economy in the two years was rather fast, so we were more conscious of things that were plain sailing and underestimated the difficulties facing us. Among other things, there were grave, prolonged disproportions in the national economy that had yet to be readjusted; there were many specific problems in people's daily life that had yet to be tackled; the management over economic planning and enterprises had yet to be restored and put on a sound basis; many preparatory work for production and construction had yet to be stepped up; the irrational economic structure had yet to be reformed and, what was more, the "leftist" mistakes in economic work that for many years ran counter to the objective laws had yet to be liquidated.

Hua Guofeng, who at that time was Chairman of the Central Committee of the Chinese Communist Party, persisted in the wrong principle of the "two whatevers" (according to him we should uphold without exception whatever policy decisions Chairman Mao had made; we should follow without fail, from first to last, whatever directives Chairman Mao had given). This was the root cause of the "leftist" errors that continued in the work of stirring the economy.

This "leftist" mistake began to surface at the Second National Conference on Learning From Dazhai held soon after the downfall of the gang of four. For instance, in disregard of the objective reality and feasibility, it was declared at that time that by 1980, one third of the counties in the country would become counties of the Dazhai type and that every

province, municipality and autonomous region would overfulfil their plan in the output of grain, cotton, edible oil and in the number of pigs, and that mechanization in agriculture would by and large be realized throughout the country. The result was that for two years running, many places in the country were engaged in farmland capital construction in a big way, blindly though, and turned out some slipshod farm implements at high cost, of low efficiency. These caused a tremendous waste of manpower, material and financial resources.

It was further decided in November 1977 that between that winter and the following spring about 10 percent of the production brigades throughout the country would be chosen to practise unified accounting to pave the way for another step forward in the transition to communism. At the same time, there had been repeated and constant stress on the need to "carry out in-depth education in the basic line in the countryside"; the plots reserved for commune members' personal needs, family sideline production and trading fairs were either restricted or discouraged because these were said to have represented the so-called "capitalist trend." This damped our farmers' enthusiasm for production and hampered the progress of the agricultural economy.

A more glaring example of these "leftist" mistakes was the continued application of an idea conceived at an earlier date, namely, the idea of catching up with and surpassing the world's advanced level in a short time. Thus, in working out the specific plans, they kept setting higher targets and speeding up the pace of economic development.

The Report on the Work of the Government made in February 1978 at the First Session of the Fifth National People's Congress put forward the general tasks of socialist modernization in the new era with many new ideas. For instance, it was envisaged that in agriculture, China by the end of this century was to become the country with the highest yield in the world and that the industrial level of many provinces would catch up and surpass certain developed countries in Europe. It declared that agricultural production would be mechanized and electrified to the maximum, that the main sectors of industrial production would be automatized, that both communications and transport would be operated at the highest speed possible, and that the various economic and technical targets would come close, catch up with or surpass the world's advanced level.

The Outline for Ten-Year Planning for the Development of the National Economy (1976-1985) revised at that time provided that 120 huge industrial projects would be built during that period, including 10 giant iron and steel bases, nine giant non-ferrous bases, eight giant coal bases, 10 giant oil and gas fields, 30 giant power stations, six new trunk railway lines and five key harbours. It also provided that by 1985 steel output would reach 60 million tons. In other words, during the Sixth Five-Year Plan steel output every year would have to increase an average of 5 million tons. Construction on such a grand scale and at such a rate of growth, in so far as the natural resources, the financial resources, the technical strength and construction cycle were concerned, were utterly impossible.

In the second half of 1978, there was repeated stress on speeding up the pace of construction, on the need for additional investments in capital construction and on expanding the scale of the import of technology and equipment. Some giant projects, without full verification and before arrangements were made to achieve an overall balance in the economy, got started hastily. This aggravated the disproportions that had long been in existence in the economy and plunged the nation into deeper financial and economic straits.

The major disproportions in the national economy were manifested in the following four aspects:

(1) Between accumulation and consumption. Investment in capital construction as arranged by the state jumped from 31.2 billion yuan in 1977 to 41.7 billion in 1978. The share of accumulation went up from 30.9 percent of the national income in 1976 to 32.3 percent in 1977 and again zoomed to 36.5 percent in 1978. This was a high rate of accumulation next only to that of 1959 (43.8 percent) and 1960 (39.6 percent). Moreover, such a high rate of accumulation was decided on at a time when this country had a population increase of over 200 million over the past 10 years and more, when for a long time there was no improvement in people's living standard, when there was practically no increase in our farmers average earnings from the collective, when the average wage of urban workers and employees remained by and large the same without any raise, and when there were numerous problems in collective welfare, in housing, in urban construction, in environmental protection, in culture, education and public health—problems that had come up and remained outstanding for many years.

(2) Between agriculture, heavy and light industries, within the industry itself. Due to continued stress on developing heavy industry, the disproportions between agriculture, light and heavy industries grew worse. Between 1976 and 1978 the share of agriculture (including enterprises run by production brigades) in the gross value of industrial and agricultural output dropped from 30.4 percent to 27.8 percent; that of industry went up from 69.6 to 72.2 percent. Of the gross value of industrial output, that of light industry dropped from 44.2 percent to 43.1 percent; while that of heavy industry went up from 55.8 percent to 56.9 percent. Light industrial products lagged far behind the needs of the people whether in quantity, quality or variety.

Within the industry and communications, even though investments in fuel and power industries and in railway construction were so much more than in the past 10 years, there was also a very big waste of energy caused by disproportions in extracting and stockpiling; the newly built railways had failed to meet the needs of the shipment of commodities; disproportions between energy and communications on the one hand the processing industry on the other became all the more serious.

(3) More input and less output, something most critical. Because problems in the structure of economic management still remained unsolved, it was impossible to achieve better economic results in construction, production and circulation. By the end of 1978 the management of one-third of the enterprises in the country were still in chaos; as to the major industrial products of the nation's key enterprises, 13 of their 30 main quality targets were still lower than the highest level in history, 21 of the 38 main targets for consumption of raw materials and energy had not yet been restored to the highest level in history, and profits made by state-owned industrial enterprises for every hundred yuan of the value of industrial output was also one-third lower than the highest level in history. In the circulation department, there were too many links and the turnover was slow; many materials, especially steel products and electric motors, were seriously overstocked.

(4) Employment was a burning question. For a long time the natural population growth had been very fast, plus victims of the policies of the past who should be rehabilitated, there were about 20 million persons waiting for jobs at the end of 1978—an urgent task unheard of before. Persons waiting

for jobs greatly outnumbered the amount of employment needed in the normal development of the national economy.

Confronting such a harsh reality, more and more people came to see with a sober mind from the experience of the past, both positive and negative, that the "leftist" policies and ways of doing things in our economic work in the long past should not go on any longer and that it was imperative to look for a new approach to our economic construction by seeking truth from facts.

XXIX Great Historic Change

Section 1 Putting the Guiding Thought to Rights

The Third Plenary Session of the 11th Party Central Committee held in December 1978 was a turning point of far-reaching significance in the history of the Party since the founding of the People's Republic. It began to rectify in earnest the "leftist" mistakes before and during the "cultural revolution" and re-established a Marxist ideological line, a Marxist political line and a Marxist organizational line.

The plenum denounced the wrong principle of the "two whatevers" and affirmed that it was necessary to master the scientific system of Mao Zedong Thought comprehensively and precisely. It decided to stop the use of the political slogan "taking class struggle as the key link" that was no longer applicable to the present-day reality, and made the strategic policy decision of shifting from 1979 on the focus of the work of the whole Party onto socialist modernization.

In economic work, the plenum pointed out, many problems affecting the daily life of the people in city and countryside that had piled up for some time should be properly solved and capital construction commensurate with our capability should be energetically carried on step by step and that all industrial and agricultural enterprises should be given more decision-making power, and that things should be done in accordance with the objective economic laws. All this was actually suggesting that we needed a "readjustment, restructuring, consolidation and improvement" of the national economy.

The plenum went into in-depth discussions of matters concerning agriculture, approving the issuance of two documents related to this subject to the provinces, municipalities and autonomous regions for deliberation, to be acted upon tentatively. They were the Decisions of the Central Committee of the Chinese Communist Party on Some Questions of Speeding up Agricultural Development (Draft) and the Working Regulations for Rural People's Communes (Tentative Draft). The plenum was of the opinion that at present the whole Party must concentrate its main effort on developing agriculture as quickly as possible, and, to this end, it was necessary first of all to arouse the socialist initiative of our farmers in their hundreds of millions, and, economically, to show great concern for their material interest, and, politically, to assure them in all seriousness of their democratic powers.

The plenum brought forward a number of policies, principles and economic measures to facilitate the development of current agricultural production. These policies and measures stressed the need to respect the right of the production teams to handle things in their own way, to carry out in all seriousness the socialist principle of "to each according to his work," to encourage these teams to carry out production in line with local conditions and develop a diversified economy, to protect the small lots of land reserved for personal needs, sideline production by individual households and rural fairs. These policies and measures also included a decision to raise the prices by a wide margin for the purchase of farm produce and sideline products and, beginning from the 1979 when summer food crops had just come in, to raise the price for the grain sold to the state within the quota by 20 percent and another 50 percent for the part sold to the state outside the quota.

After careful deliberations in the spring of 1979, the working conference of the central authorities called by the Party in April 1979 officially brought forward the principle of "readjusting, restructuring, consolidating and improving" the national economy. The conference, having made an analysis of the disproportions between industry and agriculture, between light and heavy industries, and between accumulation and consumption, declared its determination to remedy the seriously disproportionate development of the economy and to continue to overhaul the existing enterprises and institute reforms in the structure of industrial and economic management in an energetic but steady, proper way.

The conference noted that economic construction must be carried out in line with the economic laws and the laws of nature; that it should be carried out within our means and for really effective results to forge a close link between the development of production and the improvement of people's living standard; that economic co-operation and technical interchange with foreign countries should be carried out energetically on the basis of independence and self-reliance.

Premier Zhao Ziyang in his Report on the Work of the Government made in November 1981 pointed out:

"The crux of the problem is to do all we can to get better economic results in areas of production, construction and circulation. We have undergone major twists and turns in our economic construction since the founding of the People's Republic. But on the whole we have obtained notable success. In 1980, as compared with 1952, the year economic recovery was completed, the total output value of industry and agriculture had increased 9.1 times, national income 5.2 times, and industrial fixed assets 27 times, and the average consumption level of the people had increased by 100 percent. All this fully shows that progress in our economic construction has been fairly rapid under socialism. At the same time, we can see that the increase in our national income in the 32 years has been much less than that in the total value of industrial and agricultural output, and, further, that the people's standard of living has lagged far behind the national income. The results of our economic construction have not been what they should be, and the improvement in the people's living standards has not been commensurate with the labour they have contributed."

Premier Zhao in his report laid down 10 principles for the improvement of economic results. They were: (1) to accelerate the development of agriculture by relying on correct policies and on science. (2) to give prominence to the development of consumer goods industries and further adjust the service orientation of heavy industry. (3) to raise the energy utilization ratio and promote the building of energy industry and transport. (4) to carry out technical transformation step by step in key units and make the maximum use of existing enterprises. (5) to carry out the all-round consolidation and necessary restructuring of enterprises by groups. (6) to raise more construction funds and use them thriftily through improved methods of acquisition, accumulation and spending. (7) to persist in an

open-door policy and enhance our capacity for self-reliant action. (8) to actively and steadily reform our economic system and realize the initiative of all concerned to the full. (9) to raise the scientific and cultural level of all working people, and organize strong forces to tackle key scientific research projects. (10) to proceed from the concept of everything for the people and make overall arrangements for production, construction and the people's livelihood.

These 10 principles for economic construction are a concrete manifestation of the policy of "readjustment, restructuring, consolidation and improvement." This shows clearly our new approach to the development of China's economic construction, that is, in handling the relationship between speed and efficiency, we will henceforth make the improvement of the economic results of society as a whole as the central task and prerequisite for all economic activities, and on this basis, strive for the highest speed possible, instead of lopsidedly going after high speed and high targets and taking speed, high or low, as the main (or even the only) yardstick in determining success or failure in our economic work, as we did for a long time in the past.

In handling the relationship between the production of capital goods and consumer goods, we would make the two major departments coordinate and promote each other to accomplish the central task of developing consumer goods production so that the scale, pace and orientation of the development of the production of capital goods answer to the needs of consumer goods production, instead of laying emphasis in the development of heavy industry as we did in the long past.

In handling the relationship between extensive expanded reproduction and intensive expanded reproduction, we will make full use of the existing enterprises by first of all overhauling and consolidating these enterprises, by readjusting their structure, and by carrying out technical transformation and reforms in the structure of economic management, instead of relying mainly on building new factories to develop production like we did before.

In handling the relationship between accumulation and consumption, we will, bearing in mind that all is for the people, make overall arrangements and take into consideration both the development of construction and production and the improvement of people's livelihood, instead of making an excessively high accumulation of funds at the expense of the people's consumption like we did in certain periods.

In handling the relationship between economic and cultural construction, we will step up the development of intellectual resources and strive to give full scope to the role education, science and cultural undertakings can play in promoting the development of the national economy, instead of overlooking the development of education, culture and science like we did in certain periods in the past.

In handling the relationship between China and other countries, we will, while adhering to the principle of self-reliance, work energetically to develop economic and technical interchange with the outside world to raise our own technical level and promote our economic development, instead of closing the country to the outside world and keeping to ourselves like we did in some periods in the past, or simply relying on foreign countries.

In 1980 we started drawing up anew the Sixth Five-Year Plan for the Development of the National Economy (1981-1985). While cancelling the high targets set in the original 10-year planning, we changed the name and expanded the content of the plan to make it a five-year plan for national economic and social development, which was adopted by the Fifth Session of the Fifth National People's Congress in December 1982. This was, like the First Five-Year Plan, drawn up specifically in light of the actual conditions in our country, and, like the First Five-Year Plan, was officially approved and passed down to the lower levels.

The fundamental tasks of the Sixth Five-Year Plan was to continue to act upon the principle of "readjustment, restructuring, consolidation and improvement," to move a step further in solving problems that had hampered our economic development in the past and to work for a fundamental turn for the better in our financial and economic conditions. The plan envisaged that all economic activities would centre on the drive for better economic results, that great effort would be made to bring about a proportionate development of the national economy, that agriculture and the consumer goods industry would be energetically developed and heavy industry would serve immediately the two; that all branches of the national economy would be placed, step by step and in a planned way, on a new, technological basis; that we should energetically push forward the technical transformation of existing enterprises and work hard to step up the construction of energy supply, communications and educational undertakings, and bring about an integration of economic, social, science

and technological development. The plan laid down that industrial and agricultural production would register an average annual increase of 4 percent, or 5 percent, if possible, in implementing the plan.

During the Sixth Five-Year Plan, investment in capital construction would amount to 230 billion yuan, and funds for renovation and transformation, 130 billion yuan; there would be 890 large and medium-sized projects under construction and it was planned that 400 of them would be completed in the said period. These included: (1) 101 coal mines with a newly added capacity of extracting 80 million tons of coal. Among these new projects were the giant open cast coal mine in Pingsu, Shanxi (with a designed capacity of 15 million tons), the Yuanbaoshan open cast coal mine with a designed capacity of 8 million tons and the Huolinhe open cast coal mine with a designed capacity of 6 million tons. (2) Ten hydro-power stations and 27 thermo-power stations to be completed with an additional installing capacity of 12.9 million kilowatts. The main projects include the giant hydro-power stations at Gezhouba in Yichang, Hubei Province (2.71 million kilowatts), at Shuikou in Minqing, Fujian Province (1.4 million kilowatts), at Longyangjia, Gonghe, Qinghai Province (1.28 million kilowatts), at Yantan, Bama, Guangxi Zhuang Autonomous Region (1.1 million kilowatts) and thermo-power stations with an installing capacity of over 600,000 kilowatts at Qinling, Jinzhou, Fulaerji, Chifeng, Hepingyu of Luohe in Huainan, Feicheng, Zouxian, Jianbi, Dongwan, Pingdingshan, Panxian, and the construction of a 300,000-kilowatt nuclear power station. (3) New railway lines 2,067 kilometres in length to be open to traffic, also electrified lines with a length of 2,511 kilometres and 1,689 kilometres of double-track lines. (4) Harbours with 54 deepwater berths with an additional handling capacity of 100 million tons. (5) The building material, industry, 25 cement works with an additional cement-producing capacity of 12.4 million tons. (6) In forestry, an increased capacity of felling and shipping 3.2 million cubic metres of logs. (7) In chemical industry, an additional capacity of producing 1.525 million tons of synthetic ammonia, 46,000 tons of phosphate fertilizer and 115,000 tons of ethylene. (8) The Baoshan Iron and Steel Complex (first phase construction), the key project in our metallurgical industry, its furnaces scheduled to be fired in 1985 with a preliminary capacity of turning out 3 million tons of steel, another 3 million tons of iron and 500,000 tons of seamless steel tubes.

Section II Achievements and Changes In the Five Years

Since the Third Plenary Session of the 11th Party Central Committee, guided by the Sixth Five-Year Plan, which was drawn up in a realistic way, we had made strenuous efforts to turn from the old course characterized by high speed, high accumulation, low efficiency and low consumption, to a new course with a more realistic speed, better economic results and more benefits for the people. Our national economy had made tremendous achievements, better than expected, and there was a profound change in our economic life.

1. The proportions between the main aspects of the national economy were on the whole well coordinated.

The proportions between agriculture, light and heavy industries were now well coordinated. In the five years, agriculture and light industry showed a sustained growth at a fairly rapid pace. Whereas between 1953 and 1978 the average annual rate of growth of agriculture was 3.2 percent and that of light industry, 9.1 percent, that of agriculture went up to 7.9 percent between 1979 and 1983 and that of light industry, to 11.3 percent. The sustained, fairly rapid growth of light industry not only brought prosperity to the market and met people's daily needs, but also promoted the development of heavy industry.

Heavy industry picked up fairly quickly in 1982 and 1983, the average annual rate of growth in the two years being 11.2 percent. This changed the ratio of output value between agriculture and industry from 27.8:72.2 in 1978 to 33.9:66.1 in 1983, that between light and heavy industries from 43.1:56.9 in 1978 to 48.5:51.5 in 1983.

Since 1970 we had gone after high accumulation at a rate of over 30 percent at the expense of the people's consumption. After five years of readjustment, the rate of accumulation was gradually lowered from 36.5 percent in 1978 to 34.6 percent in 1979, to 31.6 percent in 1980, to 28.5 percent in 1981, 29 percent in 1982 and to 30 percent in 1983; in the past three years it was kept at the reasonable level of not higher than 30 percent.

For a long time we had made heavy investment in heavy industry, especially in the construction of new industrial enterprises, with little

investment in agriculture, in light industry, non-productive construction and the technical transformation of existing enterprises. Between 1953 and 1978, the breakdown of investment in capital construction, which amounted close to 600 billion yuan, was 54.5 percent for heavy industry; only a 5.3 percent for light industry; non-productive investment made up only 15.2 percent (only 5.8 percent in housing) of the total. Then between 1979 and 1983, in the investment in capital construction in the five-year period, which amounted to more than 267.4 billion yuan, heavy industry's share dropped to 45.5 percent; that of light industry went up to 7.9 percent; of the total investment in both productive and non-productive construction, the latter got a raise, up to 37.5 percent (20.9 percent in housing).

In the allocation of the total volume of investment in fixed assets, a greater part for many years went to capital construction and the amount of investment in technical transformation of existing enterprises was very negligible. Over the five years, investment in measures taken to upgrade and transform existing enterprises increased year by year, from 16.77 billion yuan in 1978 to 35.7 billion yuan in 1983. Its share in the total amount of investments in fixed assets too went up from 25.1 percent in 1978 to 37.5 percent in 1983. In 1982 and 1983, investments in measures taken to upgrade and transform existing enterprises surpassed the budgetary investment in capital construction.

II. Major reforms in the managerial structure of the national economy.

As pointed out by the communique of the Third Plenary Session of the 11th Party Central Committee, "one the serious shortcomings in the structure of economic management in our country is the overconcentration of authority, and it is necessary boldly to shift it under guidance from the leadership to lower levels so that the local authorities and industrial and agricultural enterprises will have greater power of decision in management under the guidance of unified state planning; big efforts should be made to simplify bodies at various levels charged with economic administration and transfer most of their functions to such enterprises as specialized companies or complexes."

Reforms in the managerial structure of the national economy in the past five years took place first in some productive units at the grass roots by

expanding their right to run their own business, and then in agriculture, industry, the field of production and gradually in the sphere of circulation and distribution. The following were the main aspects of the reforms:

(1) The responsibility system in production in various forms that links remuneration to output was widely introduced.

In 1983, 5.869 million production teams in the countryside were brought under the contracted responsibility system that links remuneration to output. The principal form of this system is farming on a basis of individual households. They constituted 99.5 percent of the total number of production teams in the countryside, comprising 97.1 percent of the total number of rural households in *xiang* (rural administrative unit at the lowest level, formerly a commune). And 98.3 percent of the production teams and 97.3 percent of the households under the system were fully responsible for the tasks entrusted them.

At the same time, 25 million "specialized households" making up about 13 percent of the total number of rural households had taken their own line and there also appeared some economic unions in different forms.

In these reforms, farm work was now assigned to individual households under contract and each household was to take care of its own profit or loss but land was still under public ownership and each household operated under the guidance of state planning. This was in accord with the present productive level of agriculture in our country and what the farmers wished for, because this mode of farming takes care of the interest of all — the state, the collective and individuals.

(2) In cities, since 1978, our enterprises had been given more decision-making power on a trial basis alongside the introduction of the system of economic responsibility. If 1980, over 6,600 state-owned industrial enterprises included in the national budget had been given more such power on an experimental basis; although they accounted for only 16 percent of the total number of enterprises in the country, they contributed 60 percent of the national gross value of industrial output and 70 percent of the profits.

By the end of 1981, the economic responsibility system had come to stay in 80 percent of the state owned industrial enterprises included in the national budget and in more than 35 percent of the state-owned commercial

enterprises; these enterprises now had some say in planning, in purchasing and marketing products, in the distribution of profits, in the use of funds and in the appointment and removal of officials at the intermediate level.

In 1983 we gradually popularized a new measure of "substituting tax payment for profit delivery," (by which all state-owned enterprises, instead of handing over their entire profits to the state, now pay taxes according to a rate and the taxation category they belong to as determined by the state; what is left after tax payment is at the disposal of the enterprise management). This further clarified enterprises rights and obligations. This also expanded their right of self-management so that they, under certain pressure, were also infused with vitality.

At the same time, many enterprises began to undergo reorganization and form unions under the principle of the establishment of economic centres and coordination between specialized units by breaking the existing departmental or regional bounds. This greatly strengthened ties between enterprises and resulted in better social economic results.

(3) Energetic development of different kinds of economic forms, actively encourage and help the development of the collective and individual economy. In the countryside, the responsibility system based on individual households and linking remuneration to output was widely popularized; land lots reserved for the private use of individual farmer households were properly expanded in size, various kinds of united economic entities organized by farmers on a voluntary basis and specialized households were given help in their development; in cities and townships, much work was done to help and encourage collective and individual economy.

The number of city workers and employees in various departments under collective ownership rose from 20.48 million in 1978 to 27.44 million in 1983, an increase of nearly 34 percent, or 2.2 times of the number in 1963 before the "cultural revolution," the increase of industrial and building workers being the largest. Individual labourers in cities and townships grew from 150,000 in 1978 to 2.31 million in 1983, or 15.4 times as much, mainly engaged in commerce, catering trade and service trade; the number of individual labourers in cities and townships now were back to the 1963 level.

At the same time, to make use of foreign capital and import technology, there appeared a number of enterprises run by foreign capital alone or joint

ventures alongside the development of projects on compensation trade. A certain part of Zhuhai City, Shenzhen City and Shantou City in Guangdong and Xiamen City in Fujian have been enclosed for the establishment of special economic zones on an experimental basis. Within these special economic zones, while preserving China's sovereign rights and enforcing Chinese laws and decrees, we adopt an economic open-door policy to encourage overseas Chinese and foreign businessmen to come and run factories or establish joint enterprises with us, and to import advanced technology and develop foreign trade.

Statistics show that between 1979 and 1983 foreign capital actually for our use ran to an aggregate of US\$14.55 billion, including US\$11.93 billion in loans and US\$2.62 billion in direct investment. Of the direct investment, US\$177 million were sunk in Chinese and foreign joint ventures, US\$768 million in Chinese and foreign co-operative enterprises, US\$782 million in the joint exploitation of offshore oilfields, US\$563 million in compensatory trade, and US\$310 million in processing and assembling or enterprises owned exclusively by foreign capital. There were altogether 188 joint ventures, 105 of which were approved in 1983.

(4) Working energetically to make use of the market's regulatory function without forfeiting the planned economy. Ours being a socialist country, it is possible and imperative to have a planned economy, which makes it easier for us to make overall plans and concentrate our strength in certain fields. This has fully demonstrated its superiority when time and again it got the country out of its economic trouble, and helped push forward our construction of the key projects. But, under the impact of the "leftist" mistakes of the past, we started ignoring the regulatory function of the market and brought many things into the domain of unified planning and the control over them was so very rigid that it was impossible to give full scope to the superiority of a planned economy.

Since 1979, to overcome these drawbacks, we have been paying attention to restoring and making full use of the market's regulatory functions. For a long time in the past, capital goods were not considered as commodities, now some of them were allowed to enter the market as such. In handling industrial consumer goods, they were now either purchased by the state according to plan, ordered by the state or purchased

by option, or sold by the producers themselves, depending on the merits of different cases.

Even some important enterprises may sell part of their products by themselves at prices that may fluctuate within a specified limit.

Lawful deals at rural trade fairs and urban markets, where farm produce is bought or sold, are encouraged for them to develop to a certain extent. In addition to planned production and circulation, we at the same time allow the production and circulation of some goods regulated by the market, as a necessary supplement to the planned economy. This structure of the planned economy is in conformity with the actual conditions in China and the socialist principle.

III. First results of the all-round overhauling and consolidation of the state-owned enterprises.

To fully tap the potentials of existing enterprises, to improve the economic results and work for a fundamental turn for the better of our finance and economy, the Party Central Committee and the State Council decided to overhaul, beginning from 1982, and consolidate in an all-round way all state-owned industrial enterprises in two to three years. This was to be done in a planned way, in both key enterprises and enterprises in general, in stages and group by group.

The decision laid stress on carrying out successfully the following five jobs with the accent on improving the economic results: (1) Overhaul, consolidate and make perfect the system of economic responsibility. Improve industrial management, carry out well the work of all-round planned control, quality control and economic accounting. (2) Strengthen labour discipline and strictly follow the rules on rewards and penalties. (3) Consolidate financial and economic discipline and make perfect the financial and accounting system. (4) Overhaul and consolidate labour organization, organize production by fixed numbers of workers with fixed quotas, train all workers in a planned way and firmly overcome the problem of doing a job with more hands than needed and doing it carelessly. (5) Overhaul and build up the leading bodies and give workers and employees a better ideological, political education.

We now have made initial achievements in overhauling and consolidating our enterprises. The system of economic responsibility within our enterprises has been put on a more sound basis; there are regulations and

rules, economic and technical targets for almost every enterprise; the system of personal responsibility for the job done at one's post has been established by fixing the numbers of workers and the quota for every job.

About distribution inside an enterprise, we have introduced ways of assessing one's work and rules on rewards and penalties—an initial move to tackle the problem of everybody getting the same pay whether he does his job well or not. We have had a check-up system of how well our enterprises enforce financial and economic discipline—an initial step to stem the unhealthy trend of lining one's pocket at the expense of the state. After the work of reshuffling the leaderships in the 3,000-odd large and medium-sized backbone enterprises in the country was in the main completed at the end of 1983, we went on reshuffling the leaderships of the medium-sized and small enterprises in various places.

According to statistics of 18 provinces and municipalities, by the end of March 1984, there was a shake-up of leadership in 65 percent of the small and medium-sized state-owned enterprises within the state budget. As required by the campaign to overhaul enterprises, directors and secretaries of the Party committees in the large and medium-sized backbone enterprises should by 1984 and 1985 at the latest have had a college education; two-thirds of their deputies should have received a higher professional school education (including self-taught). This would greatly raise the quality of these enterprises.

IV. Tremendous progress in education, science and technology.

Between 1978 and 1983 state appropriations for culture, education, science and public health increased from 11.27 billion yuan to 22.35 billion, a 98.3 percent increase; their share in the total state expenditure thus went up from 10.1 percent to 17.3 percent.

Over the five years there was a hike in enrolment in the institutes of higher learning. Between 1978 and 1983 it went up from 856,000 students to 1.207 million. The aggregate number of graduates from institutes of higher learning throughout the country before liberation was only 185,000; that in the first 17 years after liberation, that is, from 1949 to 1965, was merely 1.554 million. Since 1979 we had altered the regulations for college entrance examinations and raised the standard for admission. The number of students thus admitted and graduating from these institutes reached 457,000 in 1982, and 335,000 in 1983. The number of graduates in these two

years alone was more than 4.3 times of the aggregate number of graduates before liberation, or 51 percent of the aggregate number of graduates in the 17 years prior to the "cultural revolution."

Over the five years, there was considerable development in higher education for adults (including TV universities, universities for workers and employees, correspondence universities, evening universities, universities for farmers, institutes for administrative cadres and institutes for high school teachers to further their studies). In 1983 enrolment in these universities ran up to 1.128 million students, about 93.5 percent of the enrolment of the nation's full-time institutes of higher learning. About half of the some 400,000 industrial enterprises in the country ran various types of schools and training classes for their own workers and employees; those who attended numbered 10 million. The aggregate number of polytechnic school graduates before liberation was 547,000, and in the 17 years from the year of liberation to 1965 was 2.959 million and in the five years since 1979 was 2.016 million, 3.7 times as much as the pre-liberation aggregate figure, or 68.2 percent of the aggregate figure in the 17 years prior to the "cultural revolution."

There was also fairly rapid progress in science and technology. The number of scientists and technicians in units owned by the whole people was only 425,000 in 1952, then 4.345 million in 1978 and 6.85 million in 1983, 16.1 times of the 1952 figure, an increase of 57.7 percent, compared with that of 1978.

Over the five years, the vast number of scientists and technicians in our country had made invaluable contributions to our economic construction and to building up our military muscle. Worth mentioning here is the successful launching of a rocket carrier to a targeted area in the Pacific in 1980; the first successful launching in 1981 of three space satellites for physics probes with one rocket carrier; the successful launching of a rocket from underwater in 1982; the successful test in 1983 of the "Milky Way" giant computer, which processes data at a rate of 100 million calculations per second; the successful development of 1,800 channel analogue microwave system; the establishment of an optical fibre communications system for practical use; and the successful launching of a synchronous communications satellite into a positioned orbit in 1984.

V. Marked improvement in people's living standard.

The greatest change in this respect took place in the countryside. The introduction of the responsibility system in agricultural production greatly aroused the farmers' enthusiasm for production and caused a fairly rapid growth of agricultural production. At the same time, the state raised the price of farm produce it purchased from them by more than 40 percent in the five years between 1979 and 1983.

The result of investigations showed that farmers' average net income went up from 133.6 yuan in 1978 to 309.8 yuan in 1983, or nearly a 100 percent increase in the period, when price rises have been taken into account, surpassing the amount of increase in the previous 20 years. With more income, our farmers flocked to buy more means of production for farming, built spacious houses, bought various articles for daily use, including durable consumer goods. In 1983, farmer households in the country owned 227,000 large and medium-sized tractors, 27 percent of the nation's total number of tractors in use; 1.88 million walking tractors, 68.4 percent of the nation's total; 90,000 lorries, 32.7 percent of the nation's total in the countryside.

A survey of 30,427 rural households in 600 counties in 28 provinces, municipalities and autonomous regions, compared with the end of 1978, the average number of durable consumer goods per 100 households at the end of 1983 was as follows: 38.1 sewing machines as against 19.8; 91.4 wrist watches against 27.4; 63.4 bicycles against 30.7; 36.8 wireless sets against 17.4; television sets also began to find their way into farmers' homes, 4 for every 100 households.

The average annual level of consumption of farmers throughout the country was up at an annual average by 8.6 percent (calculated on the basis of constant prices) in the period between 1979 and 1983 (the annual average increase between 1953 and 1978 was only 1.8 percent). In addition, their bank savings too jumped from 5.57 billion yuan at the end of 1978 to 43.67 billion yuan by the end of 1983, a 7.8-fold increase in five years. In most of the 240 impoverished counties with low yields in the long past, which were short of food grain and had to depend on state relief, most people now more or less have enough to eat and wear.

In cities and townships, to begin with, nearly 40 million people got jobs in the five years, thus solving in the main the employment problem in urban districts. There, every job-holder, who had to support 2.06 persons

(including himself, or herself) in 1978, now need support only 1.71 persons.

Next, their average monetary wage increased from 614 yuan in 1978 to 826 yuan in 1983, up by 34.5 percent; the average wage of those working in units owned by the whole people went up from 644 yuan to 865 yuan, a 34.3 percent raise. In addition, average annual bonus for each worker or employee in units owned by the whole people grew from 14.8 yuan to 94.5 yuan, a 6.4-fold increase.

Due to more employment and higher wages, the average monthly income for living expenses of a worker's family in urban areas was also up by 50.5 percent over that of 1978, and the average monthly income for living expenses per head also increased by 66.5 percent in the same period. Bank deposits of urban workers and employees too went up from 15.49 billion yuan in 1978 to 45.62 billion yuan in 1983, nearly a 3-fold increase.

Over the five years, the state invested 56.1 billion yuan in the construction of housing estates for the urban residents. Of the total volume of investment in capital construction, the share of housing construction increased from only about 5 percent in the past to 20 or even 25 percent in recent years. Investment in construction of housing estates in the five-year period was even 64 percent more than that in the 25 years between 1953 and 1978. These houses built in the five years had a total floor space of 390 million square metres, about 73.5 percent of the floor space built in the said 25 years. As a result, there had been considerable improvement in the living conditions of our urban workers and employees.

Our national economy made marked progress in 1983: (1) Both grain and cotton had a bumper harvest. Grain output in 1983 increased 9.2 percent, compared with the previous year, and cotton was up by 28.9 percent. The increase in grain and cotton production by such a wide margin was unprecedented. (2) The increase of the output of energy greatly exceeded the planned figure. Raw coal increased by 7.4 percent; electricity, 7.2 percent; crude oil output also picked up. There was record-breaking output of the raw material industries. Steel output topped 40 million tons; steel products, 30 million tons; cement, 100 million tons — all reaching an all-time high. (3) Textile and other light industries saw sustained growth and trail produced over 5,000 new varieties with over 50,000 new patterns. (4) The volume of railway freightage grew by 4.4 percent; that of shipping directly under the Ministry of Communications went up by 3.9 percent; post

and telecommunications grew by 9.1 percent. (5) To strengthen the construction of key projects, investment in capital construction was readjusted from the originally planned 50.7 billion yuan to 58 billion yuan, and construction completed throughout the year was valued at 59.4 billion yuan. (6) A brisk market with an increase of 10.9 percent in the total volume of social commodity sales by retail. (7) Adjusted for fluctuations in prices and exchange rates, the total volume of imports and exports registered a real increase of 19.4 percent. (8) Financial revenue saw a 11.7 percent increase. (9) There were 5,400 major achievements in scientific research, 214 of which, items were inventions that had been examined and appraised by the state. (10) The increase in the number of workers and employees in units owned both by the whole people and collectively was 2.34 million, and there was a 6.4 percent increase in the per capita average income for living expenses of the families of workers and employees. There was a 14.7 percent increase in the average per capita income for farmer families. In that year alone, houses built for workers and employees covered a floor space of 110 million square metres; new houses built by farmers covered a floor space of about 700 million square metres.

Thanks to the efforts made by the whole population, many major targets in our Sixth Five-Year Plan were basically reached by the end of 1983, two years ahead of schedule.

Compared with the targets set for 1985 in the Sixth Five-Year Plan, the gross industrial and agricultural output value (according to constant price) was already overfulfilled by 1.8 percent. Of this, the gross agricultural output value exceeded by 6.2 percent; that of industry, by 0.3 percent. In 1983, grain output exceeded the target set for the end of the Sixth Five-Year Plan by 7.6 percent; cotton, 28.8 percent; steel, 2.6 percent; raw coal, 2.1 percent; crude oil, 6 percent; electricity was 97.1 percent of the set target.

Of the 73 major industrial products whose output was set in the plan, apart from steel, raw coal and crude oil mentioned above, the output of the following products, 33 all told, was fulfilled two years ahead of the 1985 plan: hydroelectric power, synthetic ammonia, chemical fertilizer, automobiles, machine tools, walking tractors, washing machines, and tape recorders. The volume of social commodity sales by retail in 1983 amounted to 284.9 billion yuan, or 98.2 percent of the target set for the end of the Sixth Five-Year Plan period. The volume of railway freightage reached 664.6 billion ton/kilometres, surpassing the target by 0.7 percent.

Investment in capital construction was 159.2 billion yuan in the first three years of the Sixth Five-Year Plan, 69.2 percent of the total; funds for upgrading and transforming existing enterprises were 87.2 billion yuan, 67 percent of the target set for the whole period. Of the 400 large and medium-sized projects scheduled to be completed and to go into production in the five-year period, 286 were completed in the first three years, or 71.5 percent of the total.

Not, however, that everything was plain sailing in the implementation of the principles and policies drawn up by the Third Plenary Session of the 11th Party Central Committee. We do not pretend that we had met with no resistance or interference in the course of implementing them. Nor can we say that there were no shortcomings and problems in our specific work. (1) We were still in financial straits as reforms in the urban economic structure had yet to be fully unfolded and improvements in economic results were slow in progress. Our 1983 plan envisaged that the fixed cost of products of the state-owned enterprises would be 2 percent less than that of the previous year, and yet it actually went down only by 0.2 percent. Many enterprises suffered losses; a large amount of circulation funds was being held up, the cost of engineering projects in capital construction was high and building cycles long; the state still had some financial deficits and had not yet pulled through. (2) Prices of most of the articles for daily use were stable nationwide, but in quite a few places the price of some of the non-staple food had gone up considerably. (3) Energy and communications and transport were still quite strained and there was a growing shortage of such major raw materials as steel products, cement and timber. (4) The product mix of industry failed to keep pace with the changing pattern of consumption and the needs of the world market. The supply of some brand-name products, products of top quality which, were fair-priced and sold easily, lagged behind the demand; there was, at the same time, overproduction of some goods of inferior quality, which were high-priced and not wanted on the market and were thus overstocked. Some textile and other light industrial goods, electric motors for export, due to their inferior quality, had no competitive power. (5) Commodity circulation in the rural areas could not meet the needs in the development of production. Farmers had some difficulties in selling their farm and sideline products, and in buying means of production for farming.

XXX Bright Prospects

The 12th National Congress of the Chinese Communist Party held in September 1982 was the most important one ever since the convocation of the Seventh Party Congress held in 1945.

General Secretary Hu Yaobang in his report *Create a New Situation in All Fields of Modernization* pointed out: "The general objective of China's economic construction for the two decades between 1981 and the end of this century is, while steadily working for more and better economic results, to quadruple the gross annual value of industrial and agricultural production from 710 billion yuan in 1980 to 2,800 billion yuan or so in 2,000. This will place China in the front ranks of the countries of the world in terms of gross national income and the output of major industrial and agricultural products; it will represent an important advance in the modernization of her entire national economy; it will increase the income of her urban and rural population several times over; and the Chinese people will be comparatively well-off both materially and culturally."

To reach this magnificent strategic end, the Party Central Committee, having made an all-round analysis of our economic situation and its trend of development, decided to grasp firmly in the next 20 years the questions of agriculture, energy and communications, education and science, the basic links, and make them the strategic key points in our economic development. At the same time, it affirmed that we must take the following two steps in our strategic planning: in the first 10 years, aim mainly at laying a solid foundation, building up strength and creating conditions for the second 10 years to enter a new period of vigorous economic development. The first decade, that is, the 1980s, during which the groundwork for the next decade is to be built and preparations made, is of crucial importance.

During the Sixth Five-Year Plan (1981-1985) we would continue to carry out the policy of "readjustment, restructuring, consolidation and improvement," shifting our economic work entirely onto the orbit centring on improving the economic results, we would concentrate our main force on the readjustment of the various aspects of the economic structure, overhaul and reorganize existing enterprises and form unions among them, carry out

technical transformation in some chosen enterprises and consolidate and make perfect the reforms already initiated in the structure of economic management.

In the Seventh Five-Year Plan period (1986-1990), we will extensively carry out technical transformation of our enterprises, gradually carry out reforms in the structure of economic management, continue and complete the rationalization of both the organizational structure of the enterprises and the various aspects of the economic structure, and bring about a fundamental turn for the better in finance and the economy.

At the same time, during the periods of the Sixth and Seventh Five-Year Plans, we must also carry out a series of necessary capital construction in energy and communications and make breakthroughs in certain major scientific and technological research projects.

It is a most complex, herculean task to build China, an economically backward big country, into a modernized, socialist strong power, to quadruple the existing industrial and agricultural output value and to multiply the earnings of the urban and rural residents in a brief span of 20 years.

The strategic goal to be reached at the end of this century as set by the 12th Party Congress is accompanied by a complete set of strategic focal points, strategic moves and principles and policies. First, the political situation throughout the country is one characterized by stability, unity and vitality, and the focal point of the work of the Party and state has been shifted onto economic construction. This is an achievement we have made after having put an end to the prolonged social upheaval and eliminated many factors that hampered stability and unity. Second, we have both rectified the "leftist" mistakes and averted rightist tendencies in the guiding thought in economic work and its correctness has been verified in recent years' practice and acknowledged by a growing number of people. Third, economically we have tided over the greatest difficulties in the historic turn and embarked on a healthy track of steady development. In the three years between 1981 and 1983, despite the economic readjustment, our total industrial and agricultural output value grew steadily at an annual average rate of 7.9 percent, which is higher than the annual average rate of growth (7.2 percent) required to quadruple the industrial and agricultural output value in 20 years. Fourth, economic work in these few years had laid down the

preliminary groundwork for reforms in the economic structure, in the managerial structure and in technology in the 1980s. Agriculture, which is thriving, in particular, as well as the successful experience in the responsibility system in agricultural production, had produced tremendous, far reaching influence on our drive for economic reforms as a whole. Fifth, our work in education, science and technology is showing the first signs of flourishing. Our expanded economic and technical intercourse with the outside world on the basis of self-reliance and our energetic efforts to import foreign funds and advanced technology in accordance with the principle of equality and mutual benefit, will help promote the development of production and construction in our country. A peaceful international environment and the surging tide of technical revolution are the unprecedentedly favourable external conditions for our drive for the four modernizations, especially for the modernization of our science and technology. Sixth, nationwide campaign to rectify the Party's style of work and consolidate its organs, which began in the winter of 1983, is being unfolded at various levels and is to be completed within three years. This campaign, launched under the guidance of Marxism-Leninism and Mao Zedong Thought, is sure to greatly strengthen and improve Party leadership and enhance its militancy.

In his Report on the Work of the Government delivered in May 1984, Premier Zhao Ziyang declared that henceforth we would in our economic work lay emphasis on handling well two major endeavours, namely, structural reforms and opening to the outside world. We would quicken the pace of urban reforms by first handling the relationship between the state and enterprises, between enterprises and their workers and employees, and, through reforms, do away in all seriousness and step by step the abuse of everybody "eating from the same big pot," which was commonplace in the urban economy; we should effect reforms in the managerial structure in the building industry and in capital construction, strive to better economic results; we should institute reforms in the structure of circulation, keep all channels of circulation running smoothly so that all merchandises could find outlets without a hitch.

In the case of the second endeavour, all localities and all departments are to take still larger strides to keep the door open still wider to the inflow of funds and advanced technology from abroad. Apart from the existing four

economic special zones, which should be run well, and besides enlarging the size of the special zone in Xiamen, we have decided to open Hainan Island and 14 port cities along the sea coast, namely, Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai, where certain special policies for those special economic zones are also to be enforced. This is a new measure of great significance aimed at implementing further the policy of "revitalizing our domestic economy and opening to the outside world." The reforms in the urban economic structure are sure to greatly arouse the initiative of the enterprises and the masses of workers and employees, improve the economic results and fully tap the potential of the urban economy. The special economic zones and the foresaid port cities now open to the outside world will build up along our sea coast a contiguous belt of forward positions in wide contact with the outside world. This will not only quicken the pace of economic development in the said areas but also absorb advanced technology, popularize experience in scientific management, transmit economic messages, train people for various professions and help propel the economy of the interior — a powerful stimuli to our socialist modernization.

In October 1984 the Third Plenary Session of the 12th Party Central Committee adopted the Decision of the Central Committee of the Communist Party of China on Reform of the Economic Structure. This document, an integration of the fundamental principles of Marxism with China's reality, correctly reviewed the experiences and lessons of the past and present. It drew up a blueprint for the overall reforms in China's economic structure, especially reforms in the cities, and showed the way to build socialism with Chinese characteristics.

In retrospect, we have in the past 35 years traversed a tortuous road full of twists and turns. We have made tremendous achievements all right, but we have also failed to bring the superiority of the socialist system into full play as we should have by now.

The reasons for our failure to do so are elaborated in the Decision. "Apart from historical, political and ideological causes," the Decision said, "economically speaking, a major economic cause for this is a rigid economic structure that can not meet the needs of the growing force of production."

This very pattern has many serious drawbacks, such as lack of

distinction of functions and duties of the government and those of the enterprise, barriers exist between the different departments and regions, excessive control and excessively rigid control by the state over the enterprises, overlooking commodity production, the law of value and the regulatory role of the market, equalitarianism in distribution and so on and so forth. This pattern for our economic structure cripple the initiative of the enterprises and the masses and caused the enterprises to become lifeless and affected the development of the social productive forces.

Thus, if we are to set up a lively socialist economic structure full of vitality that will promote the development of the productive forces, it is imperative to effect reforms in every aspect of the relations of production that does not meet the needs of the development of the productive forces, reforms in the superstructure as well as in the related specific institutions.

The Decision listed 10 working principles with enhancing the vitality of the enterprises as the central link in the economic structural reform. It proposed to set up a planning system that would consciously apply the law of value and develop commodity economy. It proposed to set up a rational price system and economic responsibility system in various forms. It proposed to have a distinction of functions and duties between administrations and enterprises. It proposed to actively develop many economic forms and further expand economic and technical intercourse both internally and externally. The Decision also proposed with due emphasis to respect knowledge and talented people and so to break in many people as socialist managerial personnel.

For many years we have formed many wrong concepts in the various realms of our social life, in the economic realm in particular, concepts that are not suited to conditions in our country, especially the concept that sets the socialist planned economy against commodity economy. These outdated concepts have for a long time shackled our minds and hampered the development of the productive forces. As is told by experience, in the drive for China's modernization, while the experience of foreign countries should serve as a reference, copying indiscriminately foreign patterns will lead us nowhere; nor should we stick to some of the successful experiences we had in the past, which should be developed with the change of conditions.

There were many new ideas in the decision of the Third Plenary Session of the 12th Party Central Committee, which had come up as a result of our having broken away from a series of outdated concepts.

The Decision expounded that commodity economy is the inherent attribute of a socialist economy and pointed out in unmistakable terms that a socialist economy "is a planned commodity economy based on public ownership. Full development of the commodity economy is a phase in the development of the socialist economy, a phase that cannot be skipped, and it is the prerequisite for the realization of the modernization of our economy."

The Decision will elevate to a new level our understanding of socialism and our understanding of the objective laws of economic construction in our country. This will forcefully push forward the reforms in the economic structure with accent on the cities, and promote the development of our construction for modernization as a whole.

APPENDIX I

Communique on the Statistics of China's 1985 Economic and Social Development Plan

Issued on February 28, 1986, by the State Statistical Bureau

Led by the Chinese Communist Party and the people's government, in 1985 the Chinese people implemented the policy of invigorating the domestic economy and opening the country to the world and continued to advance the reform of the economic structure. As a result, the national economy developed rapidly. The total product of society came to 1,624.2 billion yuan, 16.2 percent higher than in 1984. Of this sum, the total output value of industry and agriculture was 1,326.9 billion yuan, 16.4 percent more than the previous year. National income reached 676.5 billion yuan, up 12.3 percent from 1984. Along with the sustained growth of production, the domestic market was also brisk, state revenue and expenditure were balanced, and urban and rural residents' income increased.

According to preliminary estimates, the gross domestic product (GDP) for 1985 was 778 billion yuan, up 12.5 percent from 1984.

In 1985 the major problems in national economic development were society's total demand outstripping society's total supply, which was evidenced by excessive investment in fixed assets, society's purchasing power exceeding commodity supply, the intemperate increase in imports and substantial price hikes for some goods.

1. Agriculture

In 1985 China's countryside took a major step towards reforming the system of fixed state purchases of farm produce and readjusting the

economic structure, both of which sparked continued and comprehensive rural economic development.

The total product of society in the countryside³ was 619.5 billion yuan in 1985, a 15.6 percent increase over 1984. Of this the total output value of industry, construction and transportation industries, and commerce grew 37.4 percent. Together their proportion to total product of society in the countryside rose from 36.5 percent in 1984 to 42.3 percent in 1985.

The total output value of agriculture was 451 billion yuan (including that from rural industries), up 13 percent from the previous year and far exceeding the planned target of 6 percent growth. Of this, the proportion of forestry, animal husbandry, fishery and sideline production rose from 42.1 percent in 1984 to 49.9 percent in 1985. After deducting the industrial output value produced by rural enterprises from this sum, the total output value of agriculture is then 357.5 billion yuan, a 3 percent increase over 1984.

Crop cultivation structure underwent major readjustment. The area cultivated with grain crops was 4.4 million hectares less than in the previous year and, as a result of natural disasters and reduced efforts in grain production, the total output of grain was 378.98 million tons, or 28.33 million tons less than in 1984. Except for cotton, whose output decreased because of a reduction in its cultivated area, the output of all other major cash crops registered a fairly big increase.

The output of major farm products was as follows.

	1985	Increase over 1984 (%)
Grain	378,980,000 tons	-7.0
Cotton	4,150,000 tons	-33.7
Oil-bearing crops	15,780,000 tons	32.5
Sugarcane	51,470,000 tons	30.2
Beetroot	8,910,000 tons	7.6
Jute, ambary hemp	3,400,000 tons	128.1
Cured tobacco	2,080,000 tons	34.5
Silkworm cocoons	370,000 tons	4.8
Tea	440,000 tons	6.0

The further implementation of the policies for forestry sparked the masses' enthusiasm for planting trees, and managing and protecting forests. The output of tea-oil seeds, tung-oil seeds and other forestry products increased; the output of rubber basically stayed at the same level as the previous year's.

Further progress was made in animal husbandry. The output of pork, beef, mutton, milk, poultry and eggs increased rapidly; the number of large animals (horses, cattle, mules, donkeys, etc. — Tr.) and pigs in stock at year end continued to increase, but the number of sheep in stock dropped slightly.

The output of major animal by-products and head of livestock are as follows:

	1985	Increase over 1984 (%)
Pork, beef and mutton products	17,550,000 tons	13.9
Milk	250,000 tons	14.2
Sheep wool	180,000 tons	- 3.3
Hogs slaughtered	238,950,000 head	8.4
Large animals at year end	113,820,000 head	5.0
Pigs at year end	331,480,000 head	8.0
Sheep and goats at year end	156,160,000 head	-1.4

Fish production also grew measurably. The output of aquatic products was 6.97 million tons, up 12.5 percent from 1984. The total catch of freshwater products increased by 25.1 percent, while marine products rose by 5.3 percent.

Farm machinery and electricity consumption in the rural areas both increased. At the end of 1985, the aggregate power capacity of farm machines reached 284 million horsepower, a 7.1 percent increase over 1984. The number of large and medium-sized tractors was 864,000, an increase of 1.2 percent over 1984; small capacity and walking tractors, 3.81 million, an increase of 15.4 percent; trucks, 427,000, an increase of 22.3 percent; and

irrigation and drainage equipment, 78.5 million horsepower, equalling the 1984 figure. A total of 17.76 million tons of chemical fertilizers were applied during the year, a 2.1 percent increase over the previous year. The total consumption of electricity in rural areas was 51.2 billion kwh, an increase of 10.3 percent over 1984.

The nation's meteorologists improved their weather forecasting, making timely and accurate forecasts in some areas threatened by natural disasters and thus reducing losses caused by calamities and improving social and economic efficiency.

2. Industry

In 1985 the reforms of the industrial system progressed steadily, the vigour of enterprises was further increased and industrial production experienced a sustained and balanced development. The total industrial output value for 1985 was 875.9 billion yuan, an increase of 18 percent over 1984, exceeding the planned growth target of 8 percent. When added to the output value of rural industry, the total figure would be 969.4 billion yuan, a 21.4 percent rise over 1984. Of the total, the output value of state-owned industry increased 12.9 percent over the previous year, collectively owned industry grew by 30.9 percent, individually run industry went up by 150 percent and industry of other kinds of ownership rose 39.5 percent. The output of 82 of the 100 major industrial products met or topped state plans. Eighteen industrial products, including phosphate fertilizers, sulphuric acid, sulfurous iron ore, chemical insecticides and computers, failed to meet their 1985 targets. Most of these were products where supply had exceeded demand.

The total output value of light industry in 1985 was 408.9 billion yuan, an 18.1 percent increase over 1984. The designs and varieties of light industrial products also expanded, while the output of high- and medium-grade products jumped considerably. Some products that had been in short supply, however, still failed to keep up with demands.

The output of major light industrial products was as follows:

	1985	Increase over 1984 (%)
Cotton yarn	3,510,000 tons	9.1
Cloth	14.3 billion metres	4.2
Woollen piece goods	210 million metres	16.8
Machine-made paper and paper board	8,260,000 tons	9.3
Sugar	4,450,000 tons	17.1
Cigarettes	23,510,000 cartons	10.3
Chemical pharmaceuticals	57,000 tons	9.6
Bicycles	32,350,000	13.0
Sewing machines	9,860,000	9.8
Wrist-watches	47,730,000	9.6
TV sets	16,220,000	61.6
Of which		
Colour sets	4,100,000	206.0
Cassette recorders	12,710,000	65.7
Cameras	1,800,000	42.4
Household washing machines	8,830,000	52.8
Household refrigerators	1,390,000	154.0

The 1985 heavy industrial output value was 467 billion yuan, up 17.9 percent from 1984. Primary energy output was equivalent to 839 million tons of standard coal, an increase of 7.8 percent over the previous year. But the supply of electric power and some raw and semi-finished materials still fell short of the needs of national economic development.

The output of major heavy industrial products was as follows:

	1985	Increase over 1984 (%)
Coal	850,000,000 tons	7.7
Crude oil	125,000,000 tons	8.9
Electricity	407.3 billion kwh	8.0
Including Hydro- electricity	91.0 billion kwh	4.8

Steel	46,660,000 tons	7.3
Rolled steel	36,790,000 tons	9.1
Timber	63,100,000 cubic metres	-1.2
Cement	142,460,000 tons	15.8
Sulphuric acid	6,690,000 tons	-18.2
Soda ash	2,000,000 tons	6.5
Chemical fertilizers	13,350,000 tons	-8.6
Chemical insecticides	205,000 tons	31.3
Power generating equipment	5,610,000 kw	20.1
Machine tools	155,000	15.7
Motor vehicles	439,000	38.7
Tractors (above 20 hp each)	44,600	12.3
Locomotives	746	13.4
Steel ships for civilian use	1,660,000	0.6

Industrial economic efficiency improved. In 1985 the nation saved energy resources equivalent to more than 30 million tons of standard coal, with its energy saving rate reaching 4.7 percent. Per capita productivity in state-owned industrial enterprises was 15,349 yuan, a 9.4 percent increase over 1984. The turnover period for working funds was shortened from 102 days in 1984 to 100 days in 1985. Profits and product sales taxes of budgeted state-owned industrial enterprises amounted to 118.2 billion yuan, up 14.3 percent from the previous year. The quality of some products went down, however, and consumption rose while the amount of losses suffered by a handful of departments and regions increased.

State-owned industrial enterprises gradually established various forms of economic responsibility and 81 percent of the nation's businesses adopted the system of substituting tax payments for profits delivery in 1985.

3. Transportation, Posts and Telecommunications

By pushing through reforms and tapping potential, the transportation industry continually raised its shipping capacity. In 1985 transportation departments handled 1,666.8 billion ton-kilometres (a ton-kilometre means one ton carried over a distance of one kilometre) of goods, up 14.9 percent from 1984. Of this, the railways handled 812.5 billion ton-kilometres, a 12.1 percent increase; trucks handled 35.5 billion ton-kilometres, up 0.3 percent; ships and boats handled 757.2 billion ton-kilometres, up 19.5 percent; planes handled 415 million ton-kilometres, up 33.4 percent; oil and gas pipelines handled 61.2 billion ton-kilometres, up 7 percent. The volume of cargo handled at major seaports was 311 million tons, an increase of 13 percent.

The volume of passenger transportation was 424.8 billion person-kilometres, a 17.3 percent increase over 1984. Of this, the railways carried 241.6 billion person-kilometres, up 18.1 percent. The volume of road passenger transportation was 154.3 billion person-kilometres, an increase of 15.4 percent. The volume of waterway passenger transportation was 17.2 billion person-kilometres, up 11.7 percent, and the volume of air passenger transportation was 11.7 billion person-kilometres, up 41 percent.

China's posts and telecommunications underwent a fairly big development last year. Transactions throughout China last year amounted to 2.94 billion yuan, up 17.4 percent from 1984. The number of letters handled went up 17.7 percent; newspapers and magazines distributed rose 2.2 percent; the number of telegrams rose 25.9 percent; long-distance telephone calls grew 22 percent. The year-end number of telephone subscribers in urban areas totalled 2.19 million, up 14.4 percent from the end of 1984.

Economic results continued to improve in the transportation and posts and telecommunications departments. Per-capita productivity for railway transportation increased 9.8 percent over the previous year. The average productivity of each locomotive rose 4 percent a day over 1984, and profits in 1985 rose 12.3 percent. The average annual output of local inland tugboats per horsepower increased 7 percent over the preceding year. Profits earned by posts and telecommunications enterprises rose 43 percent. The average length of time foreign cargoships had to dock at China's ports, however, was extended from 8.7 days in 1984 to 11.1 days in 1985. Overall, the nation's transportation and communications infrastructure was still strained.

4. Investment in Fixed Assets

The construction of key projects and the updating and revamping of old enterprises were stepped up in 1985, and the management system underwent further reform. Total investment in fixed assets throughout the country came to 247.5 billion yuan, which was 64.2 billion yuan, or 35 percent, more than the preceding year. Of the total, 165.2 billion yuan was in state-owned enterprises; 32.7 billion yuan was in urban and rural collectively owned enterprises and 49.6 billion yuan was from urban and rural individual investment. Of the investment in fixed assets for state-owned enterprises, 106.1 billion yuan went into capital construction, which was 31.8 billion yuan, or 42.8 percent, more than the previous year. Of this, 88.2 billion yuan was investment directly called for by the state plan, accounting for 99.3 percent of the state's adjusted plan.

Of the investment in capital construction, 20.1 billion yuan went into energy projects, a 20.6-percent increase over the previous year; and 17.6 billion yuan was channelled into transportation and posts and telecommunications, up 51.5 percent. An investment of 22.7 billion yuan, or 101 percent of the planned target, was put into 169 key construction projects organized by the state. Construction of the first phase of Baoshan Iron and Steel Complex in Shanghai was completed and the complex began trial operation. Key projects which were completed and put into operation included coal mines, oil wells and power stations, the electrification of the Beijing-Qinhuangdao Railway, the construction of the Yanzhou-Shijiusuo Railway, the Shijiu port in Shandong, the Beijing-Hankou-Guangzhou medium-sized concentric communications cable and other engineering works. The four special economic zones of Shenzhen, Zhuhai, Shantou and Xiamen used 4 billion yuan of investment in capital construction, 82 percent more than in the previous year. The 14 coastal open cities used 16.2 billion yuan of investment, up 39.7 percent over 1984.

A total of 97 large and medium-sized projects and 134 single items attached to large and medium-sized projects were completed and put into operation in 1985. The new production capacities of these projects include: 5.66 million kw of power generating capacity, 15.13 million tons of coal a year, 17.37 million tons of crude oil annually (including capacities added through oilfield transformation or due to other investments), 359 km of new railways already in operation, 231 km of double-track railways already in

use, 1,103 km of electrified railways, 53.62 million tons of port cargo handling capacity, 280,000 tons of sugar a year, 440,000 cubic metres of timber a year, and 1.34 million tons of cement a year. Of these, the added generating capacity, crude oil mining capacity, the mileage of electrified railways and port cargo handling capacity are at the highest since the founding of the People's Republic.

Headway was made in the technical transformation of existing enterprises. State-owned enterprises in 1985 made use of a total investment of 59.1 billion yuan in equipment replacement, technical updating and other purposes involving 14.9 billion yuan, or 33.7 percent, more than the previous year. Of this amount, 43.1 billion yuan was invested in equipment replacement and technical updating, surpassing the planned target by 119.7 percent. Investment used in updating equipment in the machinery, electronics, light and textile industries surpassed that in capital construction in 1985. Of the investment used in equipment replacement and technical transformation, 21.1 billion yuan was used to increase product variety and output, a 61.2 percent increase over the previous year; 4.4 billion yuan was used in saving energy and raw and semi-finished energy materials and improving the quality of products, accounting for a 19.2-percent rise. Of the 74,000 projects undergoing technical updating and equipment replacement, 40,000 were completed, which played an important role in bringing about technical progress of the enterprises.

Further advances were made in the reform of the administrative systems of the building industry and capital construction. Of the 140,000 state-owned construction projects, more than 110,000 introduced various forms of an investment contract system. About half of the large and medium-sized capital construction projects now under way have introduced the investment contract system. Some engineering design projects were also opened for bidding. Total output value of state-owned construction enterprises in 1985 rose 25.4 percent over the preceding year and per-capita labour productivity was 22.3 percent higher than in 1984, while profits in construction and installation enterprises increased 8.5 percent over 1984.

Geological survey work registered remarkable achievements in 1985. The targets for recently discovered reserves of 15 major minerals all surpassed the state targets. New coal reserves amounted to 34.2 billion tons, and iron ore deposits to 580 million tons. A group of oil/gas fields and more

than 200 metal and non-metal ore mines were discovered and verified. Tunnelling footage completed in 1985 totalled 9.79 million metres.

4. Domestic Trade and Supply and Marketing of Materials

Urban and rural markets thrived in 1985. The nation's 1985 retail sales reached 430.5 billion yuan, a 27.5-percent increase over the previous year (17.2 percent if price increases are factored in). Of total retail sales, consumer goods grew 30.7 percent and farming materials and equipment increased 7.9 percent. Retail sales of most principal consumer goods increased over 1984. Increases included grain, 5.1 percent; vegetable oils, 13.9 percent; pork, 7.6 percent; eggs, 20 percent; sugar, 15 percent; pure cotton cloth, 11.8 percent; cotton blends, 5.3 percent; knitware, 9 percent; woollen piece goods, 16.2 percent; silks and satins, 19.1 percent; wool yarn, 26 percent; wristwatches, 28.8 percent; bicycles, 8.1 percent; electric fans, 100 percent; television sets, 59.9 percent; cassette recorders, 58.4 percent; cameras, 55.6 percent; washing machines, 69.9 percent and refrigerators, 150 percent.

The commercial structural reform developed significantly, and the circulation of commodities quickened. By the end of 1985, the state had decontrolled 513 second-level industrial goods wholesale centres, accounting for 86.2 percent of those that are to be decontrolled; a total of 64,671 small state-owned enterprises in the retail business, the catering trade and other service trades were delegated to collectives, or turned over to collective ownership or leased to individuals. These accounted for 75.4 percent of all small enterprises. The number of both urban and rural commodity fairs increased from 56,000 in 1984 to 61,000 in 1985. Trade value in 1985 amounted to 70.5 billion yuan, a 50-percent gain over the preceding year. Retail sales in all economic sectors increased considerably. The total amount of retail sales in the state-owned sector grew 13.6 percent, while retail sales in the collective sector rose 18 percent. Sales in the individual sector went up 110 percent. Sales in other economic sectors climbed 84.2 percent, while retail sales by farmers to non-agricultural residents went up 70.6 percent.

The smooth take-off of the price reform in 1985 accelerated the development of the commodity economy. But market prices rose

considerably. The general price indices for state purchases of farm and sideline products rose an average of 8.6 percent over the previous year. The general retail price index in 1985 increased 8.8 percent over 1984. Of these, the general retail price level, being influenced by the readjustment and decontrol of commodity retail prices for some farm and sideline products, rose 3.4 percent. The general retail price level, influenced by other factors, also went up by 3.4 percent. The general retail price index in the cities rose an average of 12.2 percent and 7 percent in the countryside. The price of fresh vegetables rose 34.5 percent; meat, poultry and eggs, 22 percent; aquatic products, 34.3 percent; fruit, 35.9 percent; grain, 10.9 percent; books, newspapers and magazines, 32.5 percent; and fuel, 4 percent. Retail prices for consumer goods such as garments, cultural and recreational goods increased slightly as well. The cost of living index for workers and staff went up 11.9 percent on the average over the previous year.

Sales of major means of production in 1985 all rose over the previous year. Coal sales increased 5.3 percent; rolled steel, 23.1 percent; and cement, 13.7 percent. With the gradual development in the reform of the material circulation system and with the expanding scope of market regulation, the number of capital goods trade centres increased from 96 in 1984 to 644 in 1985, and their business volume reached 10.5 billion yuan in 1985. The time for the turnover of fixed-quota circulating funds of the material supply departments was 64 days, four days less than in 1984. But some contracts for capital goods supply were not fulfilled.

6. Foreign Trade and Tourism

In 1985 China's import and export trade also expanded. According to customs statistics, the nation's 1985 total import and export value amounted to US\$69.62 billion, a 30 percent rise over 1984. Exports totalled US\$27.36 billion, 4.7 percent more than in the previous year; imports totalled US\$42.26 billion, up 34.2 percent.

A favourable balance was maintained in non-trade foreign exchange income and expenditure. In 1985 the nation's non-trade foreign exchange income stood at US\$5.1 billion; expenditure, at US\$1.61 billion; foreign exchange earnings were US\$3.49 billion greater than foreign exchange outlays.

More foreign capital was used in 1985. Last year the nation used US\$4.3 billion of foreign funds, 59.3 percent more than in 1984. This included US\$2.43 billion in loans, 88.4 percent more than in 1984; and US\$1.87 billion in direct foreign investment and commodity credit, a 31.7 percent increase.

Further advances were made in economic and technical co-operation with foreign countries. In 1985 China signed 794 contracts for overseas projects and labour service, altogether worth US\$1.19 billion. In the same year China also fulfilled contracts worth US\$890 million, a 43.5 percent increase over 1984.

The tourist industry also made great progress and in 1985 China attracted 17.83 million visitors from 164 countries and regions, 38.8 percent more than in 1984. Foreign exchange earned through tourism during the year amounted to US\$1.25 billion, up 10.5 percent over 1984.

7. Science, Education and Culture

Science and technology advanced amid reform, making fresh contributions to economic development in 1985. The nation's 40 key technological popularization projects yielded improved economic results. Most of the key research projects were fulfilled according to the requirements of the contracts. A total of 3,896 projects attained either all or a portion of their expected results. Of these, 3,165 projects also contributed to economic construction. Altogether 10,414 scientific and technological research results won prizes from State Council departments and local governments. Prize winners included 185 inventions and discoveries approved by the state.

The ranks of scientists and technicians also continued to swell. In 1985, 8.1 million natural science professionals and technicians were employed in state-owned enterprises, 630,000 more than in 1984. There were also 4.2 million people working in the social sciences, 410,000 more than in the previous year.

Education also benefited from structural reforms. Institutions of higher learning enrolled 47,000 postgraduates in 1985, 23,000 more than in the previous year. There were 87,000 postgraduates studying across the

country, 30,000 more than in 1984, and 17,000 postgraduates completed their degrees. Universities and colleges enrolled 619,000 students in 1985, 144,000 more than in 1984, and had a total student body of 1.73 million, 370,000 more than in the previous year. Last year 316,000 students graduated from these institutions. Adult higher education institutions enrolled 788,000 students, 314,000 more than the year before. The number of students studying in these institutions totalled 1.725 million, 432,000 more than in 1984. Graduates from these schools totalled 347,000 last year.

Secondary education structure underwent preliminary readjustments. Secondary schools had an enrolment of 51.683 million students, 2.441 million more than in 1984. Vocational and technical schools (equivalent to senior middle schools) had 4.165 million students, their proportion to the total number of senior middle school students increased from 32.3 percent in 1984 to 36 percent in 1985. There were 1.348 million students studying at adult secondary technical schools and 4.123 million at adult middle schools.

Progress was made in popularizing primary school education. In 1985 there were 133.7 million pupils in primary schools, and the attendance rate of pre-school children increased from 95 percent in 1984 to 95.9 percent in 1985. Considerable headway was made in pre-school education and programmes for the blind, deaf, mute and mentally retarded.

Cultural units and the media made significant contributions to developing socialist culture and ethics. Last year China produced 127 feature films, 17 fewer than the previous year; and 179 new full-length films were released, two fewer than in 1984. The country had 182,000 cinemas and film projection teams, 3,319 performing art troupes, 3,029 cultural clubs, 2,356 public libraries, 719 museums and 3,006 archives. In addition, there were 215 broadcasting stations, 575 radio transmitting and relay stations; 204 television stations, and 507 television transmitting and relay stations each with a capacity of more than 1,000 watts. Some 18.69 billion copies of national and provincial newspapers, 2.5 billion copies of magazines and 6.65 billion books and picture books were published last year.

8. Public Health and Sports

Medical and health conditions steadily improved. The number of hospital beds in China reached 2.233 million at the end of 1985, an increase of

4.1 percent over the year before. Professional health workers numbered 3.413 million, up 2.1 percent from 1984. The total included 1.49 million doctors, of whom 725,000 were physicians practising traditional Chinese and Western medicine, a 2-percent increase; and 635,000 were nurses, up 3.1 percent.

Sports made new breakthroughs. China's athletes won 46 championships in world tournaments and world cup competitions in 1985, making it a record year. The athletes also broke nine, and topped five world records; they also broke 203 national records on 118 occasions. Last year 113 athletes won the title of world master athlete and sports became more popular all over the country.

9. Living Standards

Living standards in both the cities and the countryside improved in 1985. A sample survey showed an average annual per-capita net income of 397 yuan (including 355 yuan from productive activities and 42 yuan from cash and articles remitted or brought back by family members working away from home, and relief funds issued by the state), 42 yuan, or 11.8 percent, more than in the preceding year. If price hikes are factored in, real income increased 8.4 percent. A small number of low income farmers, however, still led fairly difficult lives.

A sample survey of worker and staff families in cities and small towns showed an average annual per-capita income of 690 yuan for expenses; the average annual per capita income of city dwellers was 752 yuan, a 23.8 percent increase over 1984. When price hikes are considered, the real per capita income rose 10.6 percent.

In 1985 3.6 million people found jobs in urban areas. The nation had 122.96 million workers and staff members by the end of the year, 4.06 million more than at the end of 1984. Self-employed workers in the cities and towns totalled 4.52 million, 1.13 million more than at the end of the previous year. The annual wages of workers and staff in 1985 totalled 137 billion yuan, up 20.9 percent from 1984. The average annual cash wage for workers and staff was 1,142 yuan, 17.2 percent increase over the preceding year. The actual increase in the workers' wages stood at 4.7 percent when cost of living

increases are factored in. However, owing to considerable price increases, the actual income of a small number of workers dropped slightly.

Urban and rural savings deposits increased by a wide margin. By the end of 1985, individual bank savings amounted to 162.3 billion yuan, 33.6 percent more than the 1984 year-end figure.

Housing for both urban and rural dwellers improved. Houses completed by state-run and collective enterprises in cities and towns in 1985 totalled 130 million square metres in floor space; those built by farmers in the countryside totalled 700 million square metres.

Social welfare services continued to improve. In 1985 there were 28,000 social welfare institutes, providing for 380,000 people throughout the country. Urban and rural collectives provided for 2.25 million elderly, disabled and orphans who had no other means of support. Some of those people requiring government assistance managed to find other sources of income.

10. Population

According to a sample survey of 413 counties and cities in 29 provinces, autonomous regions and municipalities, China's birth rate in 1985 was 17.8 per thousand, the mortality rate was 6.57 per thousand, and the natural growth rate stood at 11.23 per thousand. Sample surveys indicated that by the end of 1985 China had 1,046,390,000 people, 11,640,000 more than the 1984 year-end figure.

Note: All figures given in this communique are preliminary statistics and do not include Taiwan. The total output value, national income and gross domestic product listed here are calculated in terms of 1985 prices, and the rate of growth over the previous year is calculated from comparable prices.

Major Economic Indices of Seventh Five-Year Plan

The fourth session of the Sixth National People's Congress held in 1986 approved the Seventh Five-Year Plan (1986-90) on national economic and social development. Major economic indexes of the plan are as follows:

Economic Growth Rate. The total output value of industry and agriculture in 1990 is scheduled to reach 1,677 billion yuan, or a 38 percent increase from the 1985 figure, averaging an annual increase of 6.7 percent. Among them, the agricultural output value will total 353 billion yuan, or an increase of 21.6 percent from the 1985 figure, averaging an increase of 4 percent annually; the industrial output value will reach 1,324 billion yuan, or an increase of 44 percent, averaging an increase of 7.5 percent annually.

China's GNP in 1990 is scheduled to reach 1,117 billion yuan, or an increase of 43.6 percent from the 1985 figure, averaging an increase of 7.5 percent annually.

Production and Distribution of National Income. The national income in 1990 is estimated to reach 935 billion yuan, up 38 percent from the 1985 figure of 676.5 billion yuan, averaging a rise of 6.7 percent annually.

In the next five years, the consumption fund will total 3,007 billion yuan, with the annual consumption accounting for 70 percent of the national income; while the accumulation fund will total 1,315 billion yuan, with the annual accumulation accounting for 30 percent.

By the year 1990, the per-capita consumption level will rise from 404 yuan in 1985 to 517 yuan, increasing 5 percent annually.

In the next five years, the investment in social fixed assets is planned to reach 1,296 billion yuan, of which the investment in the fixed assets of the state-owned enterprises will reach 896 billion yuan.

Financial Income and Expenditure. In 1990 China's revenue will amount to 256.7 billion yuan, an increase of 71.3 billion yuan from the 1985 figure, averaging an increase of 14.26 billion yuan annually, or a 6.7 percent increase. The state revenue in the next five years will reach 1,119.4 billion yuan, an increase of 437.6 billion yuan from the figure set forth in the Sixth Five-Year Plan, or a 64 percent increase.

The state expenditure in 1990 will be 256.7 billion yuan and that of the

five years will amount to 1,119.4 billion yuan. In this case, China will be able to make both ends meet.

In the next five years, the allocation of funds for capital construction (including foreign loans) will reach 349.9 billion yuan, or 31.3 percent of the total financial expenditure. Money used for the development of education, science, culture, public health and physical culture will reach 201.6 billion yuan. The annual average increase rate will be 8 percent and its share in total financial expenditures will reach 18 percent.

Production of Farm Crops, Livestock, Aquatic Products and Forestry.

Grain: The annual production of grain will reach 415 million tons and the 1990 production has been set at an amount between 425 million and 450 million tons, an increase of 12 percent from the figure set forth in the Sixth Five-Year Plan.

Cotton: The annual production of cotton will be about 4.25 million tons, slightly lower than the levels set in the Sixth Five-Year Plan.

Oil-bearing crops: The annual production of these is planned at about 17.12 million tons and the 1990 production should reach 18.25 million tons, an increase of 42 percent from the annual average level set forth in the previous plan.

In 1990, meat production should have reached 22.75 million tons, up about 19.7 percent from the 1985 level.

Milk production will have climbed to 6.25 million tons, slightly more than doubling the 1985's figure. And egg production will shoot up 65 percent to 8.75 million tons. The output of aquatic products is expected to reach 9 million tons, up 29 percent from 1985.

Forestry: In the next five years China intends to plant 27.70 million hectares of trees and by 1990 the forestry rate should rise to 14 percent of the country's land from 12 percent in 1985.

Raw Materials Industry. The planned target for major products by the year 1990 will be as follows:

Steel: About 55 million to 58 million tons of steel will be produced in the next five years, up from 17.9 percent to 24.3 percent; rolled steel, from 44 million to 46.5 million tons, up from 19.6 percent to 26.4 percent; chemical fertilizer, 16.3 million tons, up 22.1 percent; soda ash, 3.5 million tons, up 7.5 percent; polyethylene, 1.2 million to 1.4 million tons, up between 84.3

percent and 115 percent; timber, 68 million to 72 million cubic metres, up between 7.8 percent and 14 percent.

In the five years, the newly constructed steel-melting capability will reach 15 million tons; iron-melting capability, 12 million tons; steel rolling capability, 14.5 million tons; iron ore mining capability, 42 million tons; polyethylene production capability, 930,000 tons; soda ash production capability, 2.6 million tons, and timber production capability, 3.04 million cubic metres.

Energy Industry.

Electric power: By the year 1990, China will have generated 550 billion kwh of electricity, an increase of 142.7 billion kwh from 1985, or an annual average hike of 6.2 percent.

Coal: By 1990, national coal production will have reached 1 billion tons, an increase of 150 million tons from 1985, or an increase of 3.3 percent annually.

Petroleum: The 1990 national oil production is scheduled to reach 150 million tons, an increase of 25 million tons from 1985, or an annual average increase of 3.7 percent.

Statistics of the Main Targets For National Economic and Social Development

Table I GROSS INDUSTRIAL & AGRICULTURAL OUTPUT
unit: 100 million yuan

Year	Industry & Agriculture	Agriculture	Industry	Light Industry	Heavy Industry
1949	466	326	140	103	37
1950	575	384	191	135	56
1951	684	420	264	179	85
1952	810	461	349	221	128
1953	960	510	450	282	168
1954	1,050	535	515	317	198
1955	1,109	575	534	316	218
1956	1,252	610	642	370	272
1957	1,241	537	704	387	317
1958	1,649	566	1,083	555	528
1959	1,980	497	1,483	610	873
1960	2,094	417	1,677	547	1,090
1961	1,621	559	1,062	451	611
1962	1,504	584	920	434	486
1963	1,635	642	993	445	548
1964	1,884	720	1,164	516	648
1965	2,235	833	1,402	723	679
1966	2,534	910	1,624	796	828
1967	2,306	924	1,382	733	649
1968	2,213	928	1,285	690	595
1969	2,613	948	1,665	837	828
1970	3,138	1,058	2,080	960	1,120
1971	3,482	1,107	2,375	1,020	1,355
1972	3,640	1,123	2,517	1,079	1,438
1973	3,967	1,226	2,741	1,189	1,552
1974	4,007	1,277	2,730	1,213	1,517
1975	4,467	1,343	3,124	1,376	1,748
1976	4,536	1,378	3,158	1,393	1,763
1977	4,978	1,400	3,578	1,573	2,005
1978	5,634	1,567	4,067	1,753	2,314
1979	6,379	1,896	4,483	1,958	2,525
1980	7,077	2,180	4,897	2,309	2,588
1981	7,587	2,460	5,120	2,617	2,503
1982	8,291	2,785	5,506	2,766	2,740
1983	9,759	3,121	6,638	2,954	3,684
1984	11,797	3,755	8,042	3,335	4,707

Note: Figures in this table are calculated according to the prices of the particular year.

INDICES OF GROSS INDUSTRIAL AND AGRICULTURAL OUTPUT VALUE

1952 = 100

Year	Industry & Agriculture	Agriculture	Industry	Light Industry	Heavy Industry
1949	56.3	67.4	40.8	46.6	30.3
1950	69.5	79.3	55.7	60.6	46.7
1951	82.7	86.8	77.0	81.0	69.7
1952	100.0	100.0	100.0	100.0	100.0
1953	114.4	103.1	130.3	126.7	136.9
1954	125.2	106.6	151.6	144.8	163.9
1955	133.5	114.7	160.0	144.8	187.7
1956	155.5	120.5	204.9	173.3	262.3
1957	167.8	124.8	228.6	183.3	310.7
1958	221.9	127.8	353.9	245.1	555.5
1959	265.0	110.4	481.7	299.0	822.7
1960	279.3	96.4	335.7	269.7	1,035.8
1961	192.5	94.1	331.1	211.4	554.2
1962	173.0	99.9	276.1	193.6	429.0
1963	189.6	111.6	299.6	198.1	488.2
1964	222.9	126.7	358.3	233.4	590.7
1965	268.3	137.1	452.9	344.7	651.0
1966	314.7	149.0	547.6	394.7	830.0
1967	284.5	151.2	472.0	366.7	664.0
1968	272.6	147.5	448.4	348.7	630.1
1969	337.4	149.2	602.2	436.6	906.7
1970	424.3	166.3	787.1	515.6	1,290.2
1971	475.9	171.4	904.4	549.1	1,566.3
1972	497.4	171.1	964.1	553.1	1,675.9
1973	543.0	185.5	1,055.7	644.9	1,821.7
1974	550.6	193.2	1,058.9	662.3	1,792.6
1975	616.2	202.1	1,218.8	748.4	2,093.8
1976	626.6	207.1	1,234.6	766.4	2,104.3
1977	693.7	210.6	1,411.1	876.0	2,405.2
1978	779.0	229.6	1,601.6	970.6	2,780.4
1979	845.2	249.4	1,737.7	1,063.8	2,994.3
1980	908.6	259.1	1,888.9	1,259.5	3,036.4
1981	950.4	276.2	1,966.3	1,437.1	2,893.7
1982	1,033.1	306.7	2,117.7	1,519.0	3,177.3
1983	1,138.5	335.9	2,340.1	1,651.2	3,551.3
1984	1,310.4	393.7	2,667.7	1,880.7	4,078.4

Note: Figures in this table are calculated at constant prices

Table III

PROPORTIONS BETWEEN CONSUMPTION AND ACCUMULATION
IN THE NATIONAL INCOME

Unit: 100 million yuan

Year	National Income Spent	Consumption	Accumulation	Rate of Consumption %	Rate of Accumulation %
1952	607	477	130	78.6	21.4
1953	727	559	168	76.9	23.1
1954	765	575	190	75.1	24.9
1955	807	622	185	77.1	22.9
1956	858	671	217	75.6	24.4
1957	925	702	233	75.1	24.9
1958	1,117	738	379	66.1	33.9
1959	1,274	716	558	56.2	43.8
1960	1,264	763	501	60.4	39.6
1961	1,013	819	195	80.8	19.2
1962	948	849	99	89.6	10.4
1963	1,047	864	183	82.5	17.5
1964	1,184	921	263	77.8	22.2
1965	1,347	982	365	72.9	27.1
1966	1,535	1,065	470	69.4	30.6
1967	1,428	1,124	304	78.7	21.3
1968	1,409	1,111	298	78.9	21.1
1969	1,537	1,150	387	76.8	23.2
1970	1,876	1,258	618	67.1	32.9
1971	2,008	1,324	684	65.9	34.1
1972	2,052	1,404	648	68.4	31.6
1973	2,252	1,517	735	67.1	32.9
1974	2,291	1,550	741	67.7	32.3
1975	2,451	1,521	930	66.1	33.9
1976	2,424	1,676	748	69.1	30.9
1977	2,573	1,741	832	67.7	32.3
1978	2,575	1,888	687	63.5	36.5
1979	3,356	2,195	1,161	65.4	34.6
1980	3,686	2,521	1,165	68.4	31.6
1981	3,887	2,781	1,106	71.5	28.5
1982	4,256	3,020	1,236	71.0	29.0
1983	4,751	3,551	1,200	70.0	30.0
1984				68.8	31.2

Note: Figures in this table are calculated according to the prices in the particular year. The amount of the national income spent does not tally with the total amount of the national income, due to the differences between imports and exports and a marginal degree of error.

Table IV
YEAR ENDFIGURES OF POPULATION, WORKERS AND
STAFF, AND URBAN INDIVIDUAL LABOURERS
In 10,000 Persons

Year	Total Population	Workers and Staff			Urban Individual Labourers
		Total	In Units Owned by the Whole People	In Urban Units Owned by Collectives	
1949	54,167				
1950	55,196				
1951	56,300				
1952	57,482	1,603	1,480	23	883
1953	58,796	1,856	1,826	30	898
1954	60,266	2,062	1,881	121	742
1955	61,465	2,162	1,908	254	640
1956	62,828	2,977	2,423	554	16
1957	64,653	3,101	2,451	650	104
1958	65,994	5,094	4,532	662	106
1959	67,707	5,275	4,561	714	114
1960	66,207	5,969	5,044	925	150
1961	61,859	5,171	4,171	1,000	165
1962	67,295	4,321	3,309	1,012	216
1963	69,172	4,372	3,293	1,079	221
1964	70,499	4,601	3,465	1,136	227
1965	72,138	4,965	3,738	1,227	171
1966	74,542	5,198	3,934	1,264	156
1967	76,358	5,305	4,006	1,299	141
1968	78,534	5,504	4,170	1,334	126
1969	80,671	5,714	4,335	1,379	111
1970	82,992	6,216	4,792	1,424	96
1971	85,229	6,787	5,318	1,469	81
1972	87,177	7,134	5,610	1,524	66
1973	89,211	7,337	7,758	1,579	51
1974	90,849	7,651	6,007	1,644	36
1975	92,420	8,198	6,426	1,772	24
1976	93,717	8,673	6,860	1,813	19
1977	94,974	9,112	7,196	1,916	15
1978	96,259	9,199	7,451	2,048	15
1979	97,542	9,967	7,695	2,274	32
1980	98,705	10,444	8,019	2,425	81
1981	100,072	10,940	8,372	2,568	113
1982	101,511	11,281	8,630	2,651	147
1983	102,495	11,515	8,771	2,744	231
1984	103,475	11,890	8,637	3,253	359

OUTPUT OF MAJOR AGRICULTURAL PRODUCTS

unit: 1 000 (0.5 kg)

Year	Grain (100 million)	Cotton (mm) (1 million)	Oil-bearing Crops (1 million)
1949	2,263.6	888.8	5,127.1
1950	2,642.5	1,384.9	5,911.0
1951	2,873.7	2,061.1	7,240.0
1952	3,278.3	2,607.4	8,386.3
1953	3,336.6	2,349.5	7,711.0
1954	3,390.3	2,129.8	8,610.0
1955	3,678.7	3,036.9	9,653.3
1956	3,854.9	2,890.3	10,171.0
1957	3,900.9	3,280.9	8,391.9
1958	4,000.0	3,937.5	9,539.0
1959	3,400.0	3,417.6	8,208.0
1960	2,870.0	2,125.8	3,881.0
1961	2,950.0	1,600.0	3,627.0
1962	3,200.0	1,500.0	4,006.6
1963	3,400.0	2,400.0	4,916.8
1964	3,750.0	3,325.4	6,736.9
1965	3,890.5	4,195.5	7,250.7
1966	4,280.0	4,673.5	
1967	4,356.4	4,707.9	
1968	4,181.1	4,708.6	
1969	4,219.4	4,158.6	
1970	4,799.1	4,554.0	7,543.6
1971	5,002.8	4,209.5	8,226.0
1972	4,809.6	3,916.3	8,235.3
1973	5,298.7	5,123.5	8,572.7
1974	5,505.4	4,921.5	8,828.4
1975	5,690.3	4,761.6	9,041.5
1976	5,726.1	4,110.9	8,015.6
1977	5,654.5	4,097.5	8,034.8
1978	6,095.3	4,334.0	10,435.8
1979	6,642.3	4,414.7	12,870.7
1980	6,411.1	5,133.4	15,381.1
1981	6,500.4	5,935.2	20,410.4
1982	7,090.0	7,196.9	25,634.6
1983	7,745.6	9,274.0	21,100.0
1984	8,146.1	12,516.8	23,819.0

Table VI (1)

OUTPUT OF MAJOR INDUSTRIAL PRODUCTS (1)

Year	Raw Coal (100 Million tons)	Crude Oil (10,000 tons)	Electricity (100 million kwh)	Steel (10,000 tons)	Cement (10,000 tons)	Timber (10,000 cu. m.)
1949	0.32	12	43	15.8	66	567
1950	0.43	20	46	61	141	664
1951	0.53	31	57	90	249	764
1952	0.66	44	73	135	286	1,233
1953	0.70	62	92	177	388	1,754
1954	0.84	79	110	223	460	2,221
1955	0.98	97	123	285	450	2,093
1956	1.10	116	166	447	639	2,105
1957	1.31	146	193	555	686	2,787
1958	1.70	226	275	800	930	3,579
1959	3.69	373	423	1,387	1,227	4,518
1960	3.97	520	594	1,866	1,565	4,129
1961	2.78	531	480	870	621	2,194
1962	2.20	575	458	667	600	2,375
1963	2.17	648	490	762	806	3,250
1964	2.15	848	560	964	1,209	3,800
1965	2.32	1,131	676	1,223	1,634	3,978
1966	2.52	1,455	825	1,532	2,015	4,192
1967	2.06	1,388	774	1,029	1,462	3,250
1968	2.20	1,599	716	904	1,262	2,791
1969	2.66	2,174	940	1,333	1,829	3,283
1970	3.54	3,065	1,159	1,779	2,575	3,782
1971	3.92	3,941	1,384	2,132	3,158	4,067
1972	4.10	4,167	1,524	2,338	3,547	4,253
1973	4.17	5,361	1,668	2,522	3,731	4,467
1974	4.13	6,485	1,688	2,112	3,709	4,607
1975	4.82	7,706	1,958	2,390	4,626	4,703
1976	4.83	8,716	2,031	2,046	4,670	4,573
1977	5.50	9,364	2,234	2,374	5,565	4,967
1978	6.18	10,405	2,566	3,178	6,524	5,162
1979	6.35	10,615	2,820	3,448	7,390	5,439
1980	6.20	10,595	3,006	3,712	7,986	5,359
1981	6.22	10,122	3,093	3,560	8,290	4,942
1982	6.66	10,212	3,277	3,716	9,120	5,041
1983	7.15	10,607	3,514	4,002	10,825	5,232
1984	7.89	11,461	3,770	4,347	12,302	6,385

Table VI (2)

OUTPUT OF MAJOR INDUSTRIAL PRODUCTS (II)

Year	Chemical Fibre (10,000 tons)	Cotton Yarn (10,000 tons)	Cotton Cloth (100 million metres)	Sulphuric Acid (10,000 tons)	Soda Ash (10,000 tons)	Caustic Soda (10,000 tons)	Chemical Fertilizer (10,000 tons)
1919		32.7	18.9	1.0	8.8	1.5	0.0
1950		41.7	25.2	6.9	16.0	2.3	1.5
1951		48.7	30.6	14.9	18.5	4.8	2.8
1952		65.6	38.3	19.0	19.2	7.9	3.0
1953		74.5	46.9	26.0	22.3	8.8	5.0
1954		83.4	52.3	34.4	30.9	11.5	6.7
1955		92.0	43.6	37.5	40.5	13.7	7.6
1956		95.1	57.7	51.7	47.6	15.6	11.1
1957	0.02	81.3	50.5	63.2	50.6	19.8	15.1
1958	0.30	126.2	64.6	74.4	64.7	27.4	19.4
1959	0.54	153.1	75.7	106.1	80.8	37.2	26.6
1960	1.06	109.3	54.5	133.0	81.5	40.7	40.5
1961	0.53	66.9	31.1	90.4	48.6	27.7	29.7
1962	1.16	54.8	25.3	96.8	51.9	29.0	16.4
1963	1.89	67.8	33.4	130.6	66.4	33.8	64.8
1964	3.21	97.0	47.1	170.4	69.5	41.1	100.8
1965	5.51	130.0	62.8	234.0	88.2	55.6	172
1966	7.58	156.5	73.1	290.9	106.6	69.3	210.9
1967	5.22	135.2	65.6	198.3	91.5	57.8	164.1
1968	3.60	137.7	64.5	141.5	70.1	49.6	110.9
1969	6.66	180.5	82.1	234.3	89.4	70.4	174.9
1970	10.09	205.2	91.5	291.4	107.7	89.2	243.5
1971	11.99	190.0	84.2	357.9	115.5	105.5	299.4
1972	13.73	188.6	83.5	400.5	119.7	111.5	370.5
1973	14.88	196.7	87.1	468.1	120.4	121.0	359.2
1974	14.26	180.3	80.8	442.7	110.6	112.6	422.2
1975	15.48	210.8	94.0	484.7	124.3	128.9	524.7
1976	14.61	196.0	88.4	450.8	111.7	121.5	524.4
1977	18.98	222.0	101.5	537.5	107.7	138.6	723.8
1978	28.46	238.2	110.3	661.0	132.9	164.0	866.5
1979	32.63	263.5	121.5	699.8	148.6	182.6	1,005.4
1980	45.03	292.6	134.7	764.3	161.3	192.3	1,252.1
1981	52.73	317.0	142.7	780.7	165.2	192.3	1,253.7
1982	51.70	325.4	153.5	817.5	173.5	207.3	1,278.1
1983	54.07	327.0	148.8	869.6	179.3	212.3	1,358.9
1984	75.49	321.9	147.0	817.2	188.0	222.2	1,460.7

Table VI

TOTAL INVESTMENT IN FIXED ASSETS

unit: 100 million yuan

Year	Total	Capital Construction Of which: State Investment	Investment Measures for Renewal and Upgrading
1950	11.34	11.34	10.41
1951	23.46	23.46	18.75
1952	45.56	45.56	37.11
1953	91.59	90.44	75.49
1954	102.68	99.07	83.43
1955	105.24	100.36	91.66
1956	160.84	155.28	147.12
1957	151.23	143.32	131.48
1958	279.66	269.00	216.44
1959	368.02	349.72	272.57
1960	416.58	388.69	301.75
1961	536.06	427.42	338.87
1962	87.28	71.26	60.25
1963	116.66	98.16	84.69
1964	165.89	144.12	121.96
1965	216.90	179.61	163.09
1966	254.80	209.42	188.30
1967	187.72	140.17	124.86
1968	151.57	113.00	103.79
1969	246.92	200.83	181.60
1970	368.58	312.55	272.73
1971	411.31	340.84	282.77
1972	412.81	327.98	264.41
1973	438.17	338.10	282.20
1974	463.19	347.71	289.76
1975	544.94	409.32	335.58
1976	522.94	376.44	310.93
1977	548.30	382.57	312.35
1978	668.72	477.93	417.37
1979	699.36	523.48	418.57
1980	745.90	558.85	349.27
1981	667.51	442.91	251.56
1982	845.33	555.53	276.67
1983	958.96	594.13	345.76
1984	1,185.18	745.15	403.95

Note: 1. Statistics for investment in fixed assets cover the state-owned units only.

2. After 1982 there has been some changes in the plans and the statistical scope in capital construction investment.

Adjustments have been made in the figures for capital construction investment in 1981 and the years prior to 1981 so as to make these figures comparable with those of the previous years.

Table VIII

ENROLMENT IN EDUCATIONAL INSTITUTES

unit: (10,000 persons)

Year	Total	Institutes of Higher Learning	Total	Secondary Schools Intermediate Vocational Schools	Ordinary Middle Schools	Primary Schools
1949	2,577.0	11.7	126.8	22.9	103.9	2,439.2
1950	3,062.1	13.7	150.6	25.7	124.9	2,892.4
1951	4,527.1	15.3	196.1	38.3	157.8	4,315.4
1952	5,243.6	19.1	214.5	61.6	249.0	4,963.0
1953	5,500.7	21.2	262.9	66.8	293.1	5,166.4
1954	5,571.7	25.3	424.6	60.8	368.7	5,141.8
1955	5,788.7	28.8	447.3	52.7	390.0	5,346.0
1956	6,981.8	40.1	600.9	81.2	519.7	6,346.6
1957	7,180.5	44.1	708.1	77.8	628.3	6,428.3
1958	9,906.1	66.0	1,199.8	147.0	812.0	8,647.1
1959	10,809.1	81.2	1,290.3	149.5	917.8	9,742.0
1960	10,962.6	96.2	1,487.7	221.6	1,026.0	9,715.0
1961	8,707.7	54.1	1,024.4	120.3	814.8	7,872.6
1962	7,840.4	83.0	833.5	53.5	780.0	7,060.4
1963	8,070.1	75.0	837.6	45.2	792.4	7,277.7
1964	10,382.1	68.5	1,019.5	53.1	964.1	9,365.5
1965	13,120.1	67.4	1,435.8	54.7	1,381.1	11,739.0
1966	11,691.9	53.4	1,256.8	47.0	1,209.8	10,482.1
1967	11,539.7	40.9	1,254.5	30.8	1,223.7	10,316.0
1968	11,467.3	25.9	1,405.1	12.8	1,392.3	10,036.3
1969	12,103.0	10.9	2,025.3	3.8	2,021.5	10,081.5
1970	13,181.1	4.8	2,648.3	6.4	2,641.9	10,539.2
1971	14,368.9	8.3	3,149.4	21.8	3,127.6	11,241.3
1972	16,185.3	19.4	3,616.7	34.2	3,582.5	12,549.2
1973	17,096.5	31.4	3,494.7	48.2	3,446.5	13,650.0
1974	18,238.1	43.0	3,713.7	63.4	3,650.3	14,481.4
1975	19,681.0	50.1	4,536.8	70.7	4,466.1	15,094.1
1976	20,967.5	56.5	5,505.5	69.0	5,436.5	15,531.0
1977	21,528.9	62.5	6,848.8	68.9	6,779.9	14,749.0
1978	21,346.8	85.6	6,627.2	88.9	6,538.3	14,808.5
1979	20,789.8	102.0	6,024.9	119.9	5,905.0	14,684.9
1980	20,419.2	114.4	5,677.8	124.3	5,553.5	14,865.7
1981	19,175.3	127.9	5,014.6	106.9	4,907.7	14,267.6
1982	18,790.2	115.4	4,702.8	103.9	4,598.9	14,191.3
1983	18,332.7	120.7	4,634.0	114.3	4,519.7	13,813.0
1984	18,557.6	139.6	4,860.9	132.2	4,728.7	13,828.9

Note: 1. Educational institutes here do not include adult schools.

2. Secondary schools here do not include schools for skilled workers.

IX
TECHNICAL PERSONNEL OF NATURAL SCIENCE IN STATE-OWNED UNITS

Items	unit	1952	1978	1979	1980	1981	1982	1983	1984
Total number of Technical personnel	10,000 persons	42.5	434.5	470.5	527.6	511.1	626.4	686.2	746.62
Engineering personnel		16.4	157.1	166.7	186.2	207.7	235.4	280.2	316.25
Agricultural personnel		1.5	29.4	32.4	31.1	32.8	36.2	40.5	43.46
Health personnel		12.1	177.6	139.6	153.0	168.0	180.7	193.4	207.85
Scientific researchers		5.8	31.0	37.7	32.3	32.8	37.2	32.8	33.18
Teachers		1.2	86.4	70.1	125.0	125.1	156.9	138.3	145.98
Proportions of Technical personnel in various fields	%								
Engineering	%	38.6	36.1	35.4	35.3	40.4	37.6	40.9	42.4
Agriculture	%	3.5	6.8	6.9	5.9	6.4	5.8	5.9	5.8
Health	%	29.6	29.4	29.7	29.0	28.8	28.2	27.8	27.8
Scientific researchers	%	13.9	7.1	6.7	6.1	5.9	5.9	4.8	4.5
Teaching	%	26.1	20.6	21.3	23.7	22.6	21.9	20.2	19.5
Average number of Technical personnel per 10,000 population	Person	7.4	45.7	48.5	53.7	57.4	62.0	67.1	72.5
Engineering		2.9	16.5	17.2	18.9	20.8	23.3	27.5	
Agriculture		0.3	3.1	3.3	3.2	3.3	3.6	4.0	
Health		2.2	13.4	14.4	15.6	16.9	17.9	18.9	
Scientific researchers		0.1	2.3	3.3	3.3	3.4	3.7	3.2	
Teachers		1.9	9.4	10.3	12.7	13.0	13.5	13.5	
Average number of Technical personnel per 10,000 workers and staff	person	17.0	193.3	611.6	657.9	682.5	725.8	781.2	864
Engineering personnel		13.8	214.5	216.7	232.2	248.1	272.8	319.5	
Agricultural personnel		9.5	40.2	42.1	38.8	39.2	41.9	46.1	
Health personnel		7.9	74.2	181.5	190.8	200.6	209.4	220.5	
Scientific researchers		5.1	42.3	41.2	40.3	40.4	43.1	37.4	
Teachers		70.9	122.1	130.1	155.8	154.2	158.6	157.7	

Table A

ANNUAL AVERAGE LEVEL OF CONSUMPTION

Year	Total population	Consumption in cities	Consumption in rural areas	Total population	Consumption in cities	Consumption in rural areas
1952	56	62	148	100	100	100
1953	57	66	181	107.7	103.2	110
1954	59	70	83	125.2	124.1	110
1955	62	76	188	133.1	133.4	110
1956	69	88	197	120.6	135.5	110
1957	70.2	79	275	122.9	137.1	110
1958	70.5	85	195	124.9	126.2	110
1959	67	65	200	126.9	93.7	110
1960	71	68	217	126.2	90.4	110
1961	74.4	82	223	99.4	92.0	110
1962	77.7	88	226	103.9	98.8	110
1963	77.6	90	222	104.5	106.8	110
1964	78.6	91	231	121.6	111.1	110
1965	78.2	95	237	132.4	124.8	110
1966	78.2	96	244	138.2	130.9	110
1967	78.7	111	251	143.5	136.8	110
1968	78.2	106	250	138.5	136.4	110
1969	78.5	108	255	141.5	135.5	110
1970	78.0	104	261	147.0	141.4	110
1971	77.2	100	267	149.2	142.4	110
1972	76.7	110	272	153.4	141.7	110
1973	75.5	123	306	161.4	150.5	110
1974	75.5	123	314	161.0	149.0	110
1975	75.8	124	321	163.9	150.9	110
1976	75.7	125	340	166.9	151.4	110
1977	76.5	124	351	168.4	150.9	110
1978	77.5	132	383	177.5	157.5	110
1979	79.7	152	406	188.8	168.4	110
1980	82.7	173	468	207.1	184.8	110
1981	84.9	194	487	222.2	203.3	110
1982	86.7	202	500	234.0	218.5	110
1983	88.8	233	523	250.1	238.2	110
1984	92.7	265	584	279.2	268.8	110

Note: The consumption level listed in this table is calculated by dividing the total amount of consumption by the number of individuals in the country. The national income spent by the annual average level of the population, consumption level for every year is calculated according to prices of that year. The year and indices calculated according to comparable price.

APPENDIX II

The Common Programme of the Chinese People's Political Consultative Conference

—Adopted by the First Plenary Session of the CPPCC
On September 29th, 1949, in Beijing

Preamble

The great victories of the Chinese people's war of liberation and of the people's revolution have put an end to the era of the rule of imperialism, feudalism and bureaucratic capitalism in China. From the status of the oppressed, the Chinese people has attained that of the master in a new society and a new state, and has replaced the Kuomintang's reactionary rule of feudal, comprador, fascist dictatorship with the Republic of the People's Democratic Dictatorship.

The Chinese People's Democratic Dictatorship is the state power of the people's democratic united front composed of the Chinese working class, peasantry, petty bourgeoisie, national bourgeoisie and other patriotic democratic elements, based on the alliance of workers and peasants and led by the working class. The Chinese People's Political Consultative Conference, composed of the representatives of the Communist Party of China, of all democratic parties and groups and people's organizations, of all regions, of the People's Liberation Army, of all national minorities, overseas Chinese and other patriotic democratic elements, is the organizational form of the Chinese people's democratic united front.

The Chinese People's Political Consultative Conference, representing the will of the people of the whole country, proclaims the establishment of the People's Republic of China and is organizing the people's own central government. The Chinese People's Political Consultative Conference

unanimously agreed that New Democracy, or the People's Democracy, shall be the political foundation for the national construction of the People's Republic of China. It has also adopted the following Common Programme which should be jointly observed by all units participating in the conference, by the people's government of all levels, and by the people of the whole country.

Chapter I General Principles

Article 1. The People's Republic of China is a New Democratic or a People's Democratic state. It carries out the people's democratic dictatorship led by the working class, based on the alliance of workers and peasants, and uniting all democratic classes and all nationalities in China. It opposes imperialism, feudalism and bureaucratic capitalism and strives for the independence, democracy, peace, unity, prosperity and strength of China.

Article 2. The Central People's Government of the People's Republic of China must undertake to wage the people's war of liberation to the very end, to liberate all the territory of China, and to achieve the unification of China.

Article 3. The People's Republic of China must abolish all the prerogatives of imperialist countries in China. It must confiscate bureaucratic capital and put it into the possession of the people's state. It must systematically transform the feudal and semi-feudal land ownership system into a system of peasant land ownership; it must protect the public property of the state and of the co-operatives and must protect the economic interests and private property of workers, peasants, the petty bourgeoisie and the national bourgeoisie. It must develop the people's economy of New Democracy and steadily transform the country from an agricultural into an industrial one.

Article 4. The people of the People's Republic of China shall have the right to elect and to be elected according to law.

Article 5. The people of the People's Republic of China shall have freedom of thought, speech, publication, assembly, association, correspondence, person, domicile, change of domicile, religious belief and the freedom of holding processions and demonstrations.

Article 6. The People's Republic of China shall abolish the feudal system which holds women in bondage. Women shall enjoy equal rights with men in political, economic, cultural, educational and social life. Freedom of marriage for men and women shall be put into effect.

Article 7. The people's Republic of China will suppress all counter-revolutionary activities, severely punish all Kuomintang counter-revolutionary war criminals and other leading incorrigible counter-revolutionary elements who collaborate with imperialism, commit treason against the fatherland and oppose the cause of people's democracy. Feudal landlords, bureaucratic capitalists and reactionary elements in general, after they have been disarmed and have had their special powers abolished, shall, in addition, be deprived of their political rights in accordance with law for a necessary period. But, at the same time, they shall be given some means of livelihood and shall be compelled to reform themselves through labour so as to become new men. If they continue their counter-revolutionary activities, they will be severely punished.

Article 8. It is the duty of every national of the People's Republic of China to defend the fatherland, to abide by the law, to observe labour discipline, to protect public property, to perform public and military service, and to pay taxes.

Article 9. All nationalities in the People's Republic of China shall have equal rights and duties.

Article 10. The armed forces of the People's Republic of China, namely, the People's Liberation Army, the people's public security forces and the people's police belong to the people. It is the task of these armed forces to defend the independence, territorial integrity and sovereignty of China, and to defend the revolutionary gains and all legitimate rights and interests of the Chinese people. The Central People's Government of the People's Republic of China shall endeavour to consolidate and strengthen the people's armed forces, so as to enable them to accomplish their tasks effectively.

Article 11. The People's Republic of China shall unite with all peace-loving and freedom-loving countries and peoples throughout the world, first of all, with the USSR, all People's Democracies and all oppressed nations. It shall take its stand in the camp of international peace and democracy, to oppose imperialist aggression to defend lasting world peace.

Chapter II Organs of State Power

Article 12. The state power of the People's Republic of China belongs to the people. The people's congresses and the people's governments of all levels are the organs for the exercise of state power by the people. The people's congresses of all levels shall be popularly elected by universal franchise. The people's congresses of all levels shall elect the people's governments of their respective levels. The people's governments shall be the organs for exercising state power at their respective levels when the people's congresses of their respective levels are not in session.

The All-China People's Congress shall be the supreme organ of state power. The Central People's Government shall be the supreme organ for exercising state power when the All-China People's Congress is not in session.

Article 13. The Chinese People's Political Consultative Conference is the organizational form of the people's democratic united front. It shall be composed of the representatives of the working class, the peasantry, members of the revolutionary armed forces, intellectuals, the petty bourgeoisie, the national bourgeoisie, national minorities, the overseas Chinese and other patriotic, democratic elements.

Pending the convocation of the All-China People's Congress elected by universal franchise, the Plenary Session of the Chinese People's Political Consultative Conference shall exercise the functions and powers of the All-China People's Congress, enact the organic Law of the Central People's Government of the People's Republic of China, elect the Central People's Government Council of the People's Republic of China and vest it with the authority to exercise state power.

After the convocation of the All-China People's Congress elected by universal franchise, the Chinese People's Political Consultative Conference may submit proposals on fundamental policies relating to national construction work and on other important measures to the All-China People's Congress or to the Central People's Government.

Article 14. In all places newly liberated by the People's Liberation Army, military control shall be exercised and the Kuomintang reactionary organs of state power shall be abolished. The Central People's Government or military and political organs at the front shall appoint personnel to

organize Military Control Committees and local People's Governments. These shall lead the people in establishing revolutionary order and suppressing counter-revolutionary activities and, when conditions permit, shall convene All-Circles Representative Conferences.

Pending the convocation of the local people's congresses elected by universal franchise, the local All-Circles Representative Conferences shall gradually assume the functions and powers of the local people's congresses.

The duration of military control shall be determined by the Central People's Government according to the military and political conditions prevailing in the different localities.

In all places where military operations have completely ended, agrarian reform has been thoroughly carried out and people of all circles have been fully organized, elections based on universal franchise shall be held immediately for the purpose of convening local people's congresses.

Article 15. The organs of state power at all levels shall practise democratic centralism. In doing this the main principles shall be: The People's Congresses shall be responsible and accountable to the people; the People's Government Councils shall be responsible and accountable to the People's Congresses. Within the People's Congresses and within the People's Government Councils, the minority shall abide by the decisions of the majority; the appointment of the People's Governments of each level shall be ratified by the People's Government of the higher level; the People's Governments of the lower levels shall obey the People's Governments of the higher levels and all local People's Governments throughout the country shall obey the Central People's Government.

Article 16. The jurisdiction of the Central People's Government and the local People's Governments shall be defined according to the nature of the various matters involved, and shall be prescribed by decrees of the Central People's Government Council so as to satisfy the requirements of both national unity and local expediency.

Article 17. All laws, decrees and judicial systems of the Kuomintang reactionary government which oppress the people shall be abolished. Laws and decrees protecting the people shall be enacted and the people's judicial system shall be established.

Article 18. All state organs of the People's Republic of China must enforce a revolutionary working-style, embodying honesty, simplicity and

service to the people: They must severely punish corruption, forbid extravagance and oppose the bureaucratic working-style which alienates the masses of the people.

Article 19. People's supervisory organs shall be set up in the People's Governments of county and municipal level and above, to supervise the performance of duties by the state organs of various levels and by public functionaries of all types, and to propose that disciplinary action be taken against state organs and public functionaries who violate the law or are negligent in the performance of their duties.

The people or people's organizations shall have the right to file charges with the people's supervisory organs or people's judicial organs against any state organs or any public functionaries that violate the law or are negligent in the performance of their duties.

Chapter III Military System

Article 20. The People's Republic of China shall build up a unified army, the People's Liberation Army and people's public security forces, which shall be under the command of the People's Revolutionary Military Council of the Central People's Government; it shall institute unification of command, system, formation and discipline.

Article 21. The People's Liberation Army and the people's public security forces shall, in accordance with the principle of unity between the officers and the rank-and-file and between the army and the people, set up a system of political work and shall educate the commanders and rank-and-file of these forces in a revolutionary and patriotic spirit.

Article 22. The People's Republic of China shall strengthen its modernized army and shall establish an air force and a navy in order to consolidate national defence.

Article 23. The People's Republic of China shall put into effect the people's militia system to maintain local order and to lay the foundation for national mobilization. It shall make preparations to enforce a system of obligatory military service at the appropriate time.

Article 24. The armed forces of the People's Republic of China shall, during peace time, systematically take part in agricultural and industrial

production in order to assist in national construction work, provided their military duties are not thereby hampered.

Article 25. Dependents of those who have given their lives for the revolution and of members of the revolutionary forces, who are in need, shall receive preferential treatment, from the state and from society. The people's government shall make appropriate arrangements for disabled or retired service men who have participated in the revolutionary war, providing them with the means of livelihood or with occupations.

Chapter IV Economic Policy

Article 26. The basic principle for the economic construction of the People's Republic of China is to develop production and bring about a prosperous economy through the policies of taking into account both public and private interests, of benefiting both labour and capital, of mutual aid between the city and countryside, and circulation of goods between China and abroad. The state shall co-ordinate and regulate state-owned economy, co-operative economy, the individual economy of peasants and handicraftsmen, private capitalist economy and state capitalist economy, in their spheres of operations, supply of raw materials, marketing, labour conditions, technical equipment, policies of public and general finance, etc. In this way all components of the social economy can, under the leadership of the state-owned economy, carry out division and co-ordination of labour and play their respective parts in promoting the development of the social economy as a whole.

Article 27. Agrarian reform is the necessary condition for the development of the nation's productive power and for its industrialization. In all areas where agrarian reform has been carried out, the ownership of the land acquired by the peasants shall be protected. In areas where agrarian reform has not been carried out, the peasant masses must be set in motion to establish peasant organizations and to put into effect the policy of "land to the tiller" through such measures as the elimination of local bandits and despots, the reduction of rent and interest and the distribution of land.

Article 28. State-owned economy is of a socialist nature. All enterprises relating to the economic life of the country and exercising a

dominant influence over the people's livelihood shall be under the unified operation of the state. All state-owned resources and enterprises are the public property of all the people and are the main material basis on which the People's Republic will develop production and bring about a prosperous economy. They are the leading force of the entire social economy.

Article 29. Co-operative economy is of a semi-socialist nature and is an important component of the people's economy as a whole. The People's Government shall foster its development and accord it preferential treatment.

Article 30. The People's Government shall encourage the active operation of all private economic enterprises beneficial to the national welfare and to the people's livelihood and shall assist in their development.

Article 31. The economy jointly operated by state and private capital is of a state-capitalist nature. Whenever necessary and possible, private capital shall be encouraged to develop in the direction of state-capitalism, in such ways as processing for state-owned enterprises and exploiting state-owned resources in the form of concessions.

Article 32. The system of worker's participation in the administration of production shall, for the present period, be established in state-owned enterprises. This means that factory administrative committees shall be set up under the leadership of the factory managers. In privately owned enterprises, in order to carry out the principle of benefiting both labour and capital, collective contracts shall be signed by the trade union, representing the workers and employees, and the employer. For the present period, an eight to ten-hour day should in general be enforced in publicly and privately operated enterprises, but under special circumstances this matter may be dealt with at discretion. The people's governments shall fix minimum wages according to the conditions prevailing in various localities and trades. Labour insurance shall be gradually established. The special interests of juvenile and women workers shall be safeguarded. Inspection of industries and mines shall be carried out in order to improve their safety devices and sanitary facilities.

Article 33. The Central People's Government shall strive to draw up, as soon as possible, a general plan for rehabilitating and developing the main departments of the public and private economy of the entire country. It shall also fix the scope of the division and co-ordination of labour between the

central and local governments in economic construction, and shall undertake centralized regulation of the inter-relationship between the economic departments of the central and local governments. Under the unified leadership of the Central People's Government, the various economic departments of the central and local governments should give full play to their creativeness and initiative.

Article 34. Agriculture, forestry, fisheries and animal husbandry: In all areas where agrarian reform has been thoroughly carried out, the central task of the People's Government shall be organization of the peasants and of all manpower available for allocation to the development of agricultural production and secondary occupations. The People's Government shall also guide the peasants step by step, in the organization of various forms of mutual aid in labour and co-operation in production, according to the principle of willingness and mutual benefit. In newly liberated areas, every step in agrarian reform shall be linked up with reviving and developing agricultural production.

The People's Government shall, in accordance with the state plan and the requirements of the people's livelihood, strive to restore the output of grain, industrial raw materials and export goods to the pre-war production level and to surpass it within the shortest possible time. Attention shall be paid to construction and repair of irrigation works, to prevention of floods and droughts, to restoration and development of animal husbandry, to increasing the supply of fertilizers, to improvement of farm implements and seeds, to prevention of pest damage and plant diseases, to relief work in the event of natural calamities, and to planned migration for land reclamation.

Forests shall be protected and forestation shall be developed according to plan.

Coastal fisheries shall be protected and the aquatic products industry shall be developed.

Livestock-raising shall be protected and developed, and preventive measures shall be taken against plague.

Article 35. Industry: In order to lay the foundation for the industrialization of the country, the central point of industrial work shall be the planned, systematic rehabilitation and development of heavy industry, such as mining, the iron and steel industry, power industry, machine-making industry, electrical industry and the main chemical industries, etc. At the

same time, the production of the textile industry and other light industries beneficial to the national welfare and to the people's livelihood shall be restored and increased so as to meet the needs of the people's daily consumption.

Article 36. Communications: Railways and highways shall be swiftly restored and gradually extended. Rivers shall be dredged and water transportation expanded. Postal, telegraphic and telephone services shall be improved and developed. Various communications facilities shall be built up and civil aviation established step by step according to plan.

Article 37. Commerce: All legitimate public and private trade shall be protected. Control shall be exercised over foreign trade and the policy of protecting trade shall be adopted. Freedom of domestic trade shall be established under a unified economic state plan, but commercial speculation disturbing the market shall be strictly prohibited. State-owned trading organizations shall assume the responsibility of adjusting supply and demand, stabilizing commodity prices and assisting the people's co-operatives. The People's Government shall adopt the measures necessary to encourage the people in saving, to facilitate remittances from overseas Chinese, and to channel into industry and other productive enterprises, all socially idle capital and commercial capital which is not beneficial to the national welfare and/or to the people's livelihood.

Article 38. Co-operatives: The broad masses of working people shall be encouraged and assisted to develop co-operatives according to the principle of willingness. Supply and marketing co-operatives, as well as consumers', credit, producers' and transport co-operatives shall be organized in towns and villages. Consumers' co-operatives shall first be organized in factories, institutions and schools.

Article 39. Currency and Banking: Financial enterprises shall be strictly controlled by the state. The right of issuing currency belongs to the state. The circulation of foreign currency within the country shall be prohibited. The buying and selling of foreign exchange, foreign currency, gold and silver shall be handled by the state banks. Private financial enterprises operating in accordance with the law shall be subjected to supervision and direction by the state. All who engage in financial speculation and undermine the financial enterprises of the state shall be subjected to severe punishment.

Article 40. Public finance: A budget and financial statement system shall be instituted. The spheres of financial administration of central and local governments shall be defined. Economizing and frugality shall be enforced. The budget shall be steadily balanced and capital accumulated for the country's production.

The tax policy of the state shall be based on the principle of ensuring supplies for the revolutionary war and taking into account the rehabilitation and development of production and the requirements of national construction. The tax system shall be simplified and equitable distribution of burden effected.

Chapter V Cultural and Educational Policy

Article 41. The culture and education of the People's Republic of China shall be New Democratic - national, scientific and popular. The main tasks of the People's Government in cultural and educational work shall be the raising of the cultural level of the people, the training of personnel for national construction work, the eradicating of feudal, comprador and fascist ideology and the developing of the ideology of service to the people.

Article 42. Love of the fatherland, love of the people, love of labour, love of science and care of public property shall be promoted as the public spirit of all nationals of the People's Republic of China.

Article 43. Efforts shall be made to develop the natural sciences in order to serve industrial, agricultural and national defence construction. Scientific discoveries and inventions shall be encouraged and rewarded and scientific knowledge shall be disseminated among the people.

Article 44. The application of a scientific-historical viewpoint to the study and interpretation of history, economics, politics, culture and international affairs shall be promoted. Outstanding works of social science shall be encouraged and rewarded.

Article 45. Literature and art shall be promoted to serve the people, to awaken their political consciousness and to enhance their enthusiasm for labour. Outstanding works of literature and art shall be encouraged and rewarded. The people's drama and cinema shall be developed.

Article 46. The method of education of the People's Republic of China shall be the unification of theory and practice. The People's Government shall reform the old educational system, subject matter and teaching methods in a planned, systematic manner.

Article 47. In order to meet the extensive requirements of revolutionary and national construction work, universal education shall be carried out, secondary and higher education shall be strengthened, technical education shall be stressed, the education of workers during their spare time and that of cadres at their posts shall be strengthened, and revolutionary political education shall be accorded to both young and old-type intellectuals. All this is to be done in a planned and systematic manner.

Article 48. National physical culture shall be promoted. Public health and medical work shall be expanded and attention shall be paid to the protection of the health of mothers, infants and children.

Article 49. Freedom of reporting truthful news shall be safeguarded. The utilization of the press for slander, for undermining the interests of the state and the people and for provoking world war shall be prohibited. The people's radio and publication work shall be developed. Attention shall be paid to publishing popular books and journals beneficial to the people.

Chapter VI Policy Towards Nationalities

Article 50. All nationalities within the boundaries of the People's Republic of China are equal. They shall establish unity and mutual aid among themselves, and shall oppose imperialism and their own public enemies, so that the People's Republic of China will become a big fraternal and co-operative family composed of all its nationalities. Greater nationalism and chauvinism shall be opposed. Acts involving discrimination, oppression and splitting of the unity of the various nationalities shall be prohibited.

Article 51. Regional autonomy shall be exercised in areas where national minorities are concentrated and various kinds of autonomy organizations of the different nationalities shall be set up according to the size of the respective populations and regions. In places where different nationalities live together and in the autonomous areas of the national

minorities, the different nationalities shall each have an appropriate number of representatives in the local organs of political power.

Article 52. All national minorities within the boundaries of the People's Republic of China shall have the right to join the People's Liberation Army and to organize local people's public security forces in accordance with the unified military system of the state.

Article 53. All national minorities shall have freedom to develop their dialects and languages, to preserve or reform their traditions, customs and religious beliefs. The People's Government shall assist the masses of the people of all national minorities to develop their political economic, cultural and educational construction work.

Chapter VII Foreign Policy

Article 54. The principle of the foreign policy of the People's Republic of China is protection of the independence, freedom, integrity of territory and sovereignty of the country, upholding of lasting international peace and friendly co-operation between the peoples of all countries, and opposition to the imperialist policy of aggression and war.

Article 55. The Central People's Government of the People's Republic of China shall examine the treaties and agreements concluded between the Kuomintang and foreign governments, and shall recognize, abrogate, revise or re-negotiate them according to their respective contents.

Article 56. The Central People's Government of the People's Republic of China may, on the basis of equality, mutual benefit and mutual respect for territory and sovereignty, negotiate with foreign governments which have severed relations with the Kuomintang reactionary clique, and which adopt a friendly attitude towards the People's Republic of China, and may establish diplomatic relations with them.

Article 57. The People's Republic of China may restore and develop commercial relations with foreign governments and peoples on a basis of equality and mutual benefit.

Article 58. The Central People's Government of the People's Republic of China shall do its utmost to protect the proper rights and interests of Chinese residing abroad.

Article 59. The People's Government of the People's Republic of China protects law-abiding foreign nationals in China.

Article 60. The People's Republic of China shall accord the right of asylum to foreign nationals who seek refuge in China because they have been oppressed by their own governments for supporting the people's interests and taking part in the struggle for peace and democracy.

Decision on Unifying the State Financial and Economic Work

(Adopted at the 22nd Conference on Government Affairs by the Government Administration Council on March 3, 1950)

The Government Administration Council of the Central People's Government on March 3, 1950 issued an order which said that the Decision of the Government Administration Council of the Central People's Government on Unifying the State Financial and Economic Work had been adopted by the 22nd government affairs conference, and hoped that local governments at all levels would act accordingly.

The full text of the "Decision" is as follows:

Our current financial and economic situation has the following characteristics: (1) According to reports from various regions, the number of military and administrative personnel, government employees and teachers has approached 9 million. (2) Although the quotas for the levying and collection of public grain, as laid down in autumn last year, have been fulfilled in most parts of the country, the task has not been completed in some areas and deviations had occurred in the work. And there are gaps between the actual amount of tax collected and the planned targets. (3) In the past the greater portion of the state expenditure was borne by the Central People's Government and partly defrayed by issuing more currency. Now the public grain and tax collected are mostly managed by the governments of the various regions, provinces, cities and counties. Such financial decentralization and the disconnection between organizations in charge of revenue and those responsible for expenditure, if allowed to continue unchecked, will inevitably result in the issuance of extra currency. (4) As the Chinese mainland, except Tibet, has been entirely liberated, financial and price fluctuations resulting from inflation will not be limited to one locality but will inevitably affect the whole country. After experiencing 12 years of war and inflation, the people of the whole country have great difficulty in their livelihood and this requires us to put an end to inflation.

Unless measures are taken to overcome the imbalance between revenue

and expenditure and the disconnection between departments in charge of revenue and those responsible for expenditure, there is not only the danger that the 1950 budget will be beyond control but financial and price fluctuations will result and therefore greatly increase the difficulties of the people. However, it must be pointed out that the present financial situation is better than last year's and that there is the possibility to further reduce the gap between revenue and expenditure and prevent major financial and price fluctuations. The key lies in cutting down expenditure, increasing revenue and unifying the management of revenue and expenditure. To achieve this, the Government Administration Council has made the following decisions:

(1) Establishing a National Organization Committee, with Bo Yibo as its chairman, and Nie Rongzhen will be delegated by the People's Revolutionary Military Commission as its vice-chairman. Organization committees will also be set up by the various administrative regions, provinces and big cities, which will be in charge of determining and announcing the number of personnel, horses and vehicles for the military and government organizations at all levels. Leaders of the various army units and government institutions must take personal charge, verify the actual number of personnel and horses and see to it that there are no false figures. Employing additional personnel without the approval of authorities concerned and recruiting people to open training classes should be stopped immediately. Personnel not on the approved list of employees, and surplus personnel in the government departments and enterprises must not be dismissed at random, but should be assigned work by the organization committees in all parts of the country according to a unified plan. When a government department or an enterprise needs to recruit additional personnel, they must, after obtaining the approval of the relevant institutions, first apply to the National Organization Committee for allocations. They may recruit additional personnel only when the number of personnel allocated is not enough and after they have obtained approval from the departments concerned. The policy of keeping on all the personnel in the government departments and enterprises of the old regime and the men and officers of the old army remains unchanged, but there is no need to call back those who have run away before liberation by our army or to keep those who wish to return home. With regard to those personnel who have been

retained, we should not adopt a passive attitude by merely supplying them with the means of livelihood, but we should step by step remould their ideology and use them rationally.

(2) Setting up a national committee for the checking of warehouses and the allocation of materials, with Chen Yun as its chairman and Yang Lisan its vice-chairman. Similar committees should be set up in the logistics departments of all administrative regions, provinces, cities and counties and in all enterprises and factories. Leaders at all levels should take personal charge and give guidance to the work of making an inventory of the warehouses. They should find out the amount of goods in stock in all warehouses by the end of this June and report level by level to the national committee without holding back anything or moving the goods elsewhere without permission. All materials in stock should be put under the unified control of the Financial and Economic Commission of the Government Administration Council and be used rationally, so as to reduce the current year's expenditures and imports from abroad.

(3) Strictly practising economy. All government organizations must determine the number of employees they need, and all public schools must determine the number of students they should enlist, and work quotas should be set for each employee. All state-owned factories and enterprises, apart from fixing the number of workers and staff members and the quality and quantity of products, must enforce a system stipulating the quota for the consumption of raw materials and eliminate waste resulting from the hoarding of materials. All state-owned economic departments must raise the turnover rate of funds, keep the machinery and equipment in good order, establish a storage system and severely punish those who embezzle or waste materials. The whole nation should cut down expenses that can be retrenched, postpone so as to concentrate financial resources on eliminating remnant enemy forces militarily and rehabilitating key economic enterprises.

(4) Except for extra grain collected by the localities, all the public grain collected in various parts of the country should be allocated for used by the Ministry of Finance of the Central People's Government. Unless they have obtained orders from the grain bureaus, the people's governments of the provinces, cities, counties and districts are not allowed to draw on public grain. At the same time, they are held responsible for keeping the public grain from damage and rot and they should help with grain transportation.

Because of crop failures in some places last year and the large quantities of grain needed in big cities, it is therefore necessary for the Financial and Economic Commission of the Government Administration Council to draw up a public grain allocation plan for the whole country so as to achieve the aim of rationally using the grain. In addition to rationed grain for the people and horses and grain stored especially for disabled armymen, relief grain and child-care grain, the various localities must not without approval use public grain to defray outlays. When the Ministry of Finance of the Central People's Government has carefully considered the possibility and issued an allocation order, the various provinces must not refuse to ship their public grain to other provinces and regions for relief purposes. Grain allocated for other provinces should be fine-quality grain produced in the nearby localities. The Ministry of Finance is enjoined to draw up stipulations concerning the outlaying, storing and transporting of public grain.

(5) Except for income from taxes levied by the various localities with the approval of authorities concerned, the incomes from customs duties, salt tax, commodity tax and industrial and commercial taxes are to be controlled and allocated by the Ministry of Finance under a unified plan. All the big cities and counties which have not yet set up state treasury by the end of February should all do so before mid-March and handle business on behalf of local treasuries. All income from taxes should be put in the treasury day by day beginning from March. With regard to towns and cities far from the treasuries, the income from taxes should be put in the treasury according to the time limit set by local financial and economic commissions. Any delay in doing so or misappropriation is prohibited. Tax revenue is one of the major sources of income for the state and the biggest source of cash needed for covering expenditures for economic rehabilitation. In order to fulfil the task of tax collection, the people's governments in the nation's big cities and counties must appoint the most competent cadres to be directors of tax bureaus.

The amount of public grain to be collected as mentioned in items 4 and 5 above, including the amount of extra public grain collected by the local governments, as well as the tax regulations, tax items and tax rate should all be submitted by the Ministry of Finance to the Government Administration Council, which will make decisions on their implementation. The people's governments in various localities should not, without approval, increase, decrease or change the amount of public grain to be collected.

(6) In order to regulate supply and demand at home, organize foreign trade, supply and market goods in a planned way and withdraw currency from circulation, the defining of the business scope of state-owned commercial organizations in the various localities and the allocation of materials should all be put under the unified direction of the Ministry of Trade. The people's governments and financial and economic commissions in the various localities are duty-bound to supervise and assist the commercial organizations in their localities to carry out the unified plan of the Ministry of Trade. Without the approval of the Ministry of Trade, these commercial organizations are not allowed to change the work plan drawn up by the Ministry of Trade. In business transactions, the commercial organizations and various enterprises, factories and cooperatives should all follow the normal economic accounting system of business operations, and payments to the commercial organizations should not be defaulted on the pretext of insufficient funds. In business operations, all economic organizations must strictly abide by their promises. If and when one party breaks its promise, the other party may sue for damages. Cash obtained from daily sales by state-owned trade organizations affiliated to the Ministry of Trade must be turned over to the state treasury day by day and must not be delayed or misappropriated. Unless approval from the Ministry of Trade has been obtained, the commercial organizations in the various localities must not draw on trade funds from the state treasury. All army units and government institutions must strictly obey Chairman Mao's order and not engage in commerce.

(7) In management, all state-owned factories and enterprises fall under the following three categories: (1) Those directly managed by the ministries under the Central People's Government; (2) those owned by the Central People's Government but temporarily managed by the local people's governments or military organizations; (3) those managed by local people's governments or military organizations. With these as the criteria, the Financial and Economic Commission under the Government Administration Council is enjoined to clearly define the responsibilities of management in state owned factories and enterprises and to draw up regulations on investment in or loans to these factories and enterprises. All publicly owned factories and enterprises and co-operatives must pay taxes

on time according to the stipulations of the Ministry of Finance. All factories and enterprises under the central government or local governments must hand in the depreciation funds and part of their profits on time to the Ministry of Finance or local government; the total amount to be handed in and the amount to be paid in different periods should be defined by the Financial and Economic Commission under the Government Administration Council and the local governments respectively in the light of the actual circumstance.

(8) The People's Bank is designated as the head organization in charge of state cash allocations. State banks should set up more branches or agencies which act on behalf of the state treasury. Foreign exchange quotation rates and allocation of foreign exchange are under the unified management of the People's Bank. Applications for foreign exchange by publicly owned economic departments and government organizations are to be examined and approved by the Financial and Economic Commission under the Government Administration Council. Applications for foreign exchange by individuals will be handled in the same way as before. All the cash of military and government organizations and publicly owned enterprises, except for a portion which they retain for use in the immediate future, should be deposited in the state banks, and should not be loaned to individuals or deposited in private banks. Those who violate these regulations shall be punished. State banks should accept as much public and private savings deposits as possible, but they should not go beyond the limit stipulated by the Financial and Economic Commission regarding the use of these deposits.

(9) The Ministry of Finance must guarantee the expenditures needed by the army units and the local people's governments and the necessary investments for the restoration of the people's economy. With regard to the method of cash payment for the expenditures of army units and local governments, the Ministry of Finance should, in accordance with the actual number of their staff, the supply standards and the cash portion listed in the state budget estimate, approve the budgets of the army units and government departments on a monthly or quarterly basis and pay them cash as scheduled. The principle to be followed is that cash should be paid first to the front and the army and then to the rear and the localities. With regard to outlays to cover the expenditures of the localities, the amount of

income from local taxes and enterprise incomes, which should be turned over to the state treasury, should be deducted from the amount paid to the localities according to the supply standards. Investments in state-owned enterprises and outlays for cultural, educational and social undertakings should be paid in accordance with the state budget estimate and in accordance with the amount to be paid in different periods as approved by the Financial and Economic Commission. Before applying for investments, state-owned enterprises must first obtain approval for an equivalent budget estimate for the project. To guarantee the currency value of the expenditures of military and administrative units and undertakings, as well as the currency value of enterprise investments, state banks will open, for the convenience of all military and administrative departments and publicly owned enterprises, short-term, interest-free accounts for deposits in kind or low-interest accounts for deposits in kind of a specified amount of money. In order to guarantee the payments of the above-mentioned expenditures, the Ministry of Finance must exercise strict control over the taxes, the allocations of public grain, public grain in kind converted into money, income from government bonds, profits handed in by state-owned enterprises and depreciation funds in order to ensure that these incomes are put in the treasury on time.

(10) The Government Administration Council of the Central People's Government holds that the strict implementation of the above-mentioned nine items will enable the state to overcome the financial difficulties, guarantee the expenditures of military and administrative units, and prevent major financial and price fluctuations. It is imperative, therefore, to carry out the above-mentioned nine items to the letter. Those who do not carry out or abide by the above-mentioned stipulations will be regarded as infringing upon the people's interests and violating the state laws and discipline. The Central People's Government will enact appropriate laws and mete out due punishment to these elements so as to ensure the strict implementation of the above-mentioned regulations.

In the past, comrades at various levels of local governments have done much work in giving support to the front and in collecting public grain and taxes. They will continue to shoulder heavy responsibilities in the future and their work is inseparably linked with military victories. Meanwhile, in unifying the management of financial and economic work at present, there

are certain difficulties in carrying on the work as many places are newly liberated areas. However, considering our financial difficulties, the disconnection between departments in charge of revenue and those in charge of expenditures and the instability of finance and prices, it is imperative that we take steps to further unify the management of financial and economic work. After public grain and income from taxes are put under the unified control of the Central People's Government, it is possible that local authorities will face greater difficulties than before in defraying their expenditures. But they should realize that those resulting from the continued decentralized management of the state's financial and economic work and from major financial and price fluctuations. It is therefore necessary to stress the principle that the part must give way to the whole and local authorities must be subordinate to the central government. We should be willing to endure certain relatively small difficulties in order to prevent and avert greater difficulties. Leading members in various places must guarantee that, after public grain and income from taxes are put under the unified control of the Central People's Government, the comrades working in the various localities should not adopt a passive and irresponsible attitude, but should be more active and responsible in future financial and economic work. This is our demand as well as their responsibility.

The Land Reform Law of the People's Republic of China (Adopted at the Eighth Conference of the Central People's Government Council on June 28, 1950)

Section one General Principle

Article 1. The feudal exploitative system of landownership by the landlord class shall be abolished and the system of peasant landownership shall be introduced in order to set free the rural productive forces, develop agricultural production and pave the way for New China's industrialization.

Section Two The Confiscation and Requisitioning of Land

Article 2. The land, draught animals, farm implements and surplus grain of the landlords, and their surplus houses in the countryside shall be confiscated, but their other property shall not be confiscated.

Article 3. The rural land belonging to ancestral shrines, temples, monasteries, churches, schools, societies or other public bodies shall be requisitioned. But local people's governments should devise appropriate measures to solve the financial problems facing such schools, orphanages, homes for the aged, hospitals, etc., as depend on the income from the above-mentioned land for their maintenance.

Land owned by mosques may be retained according to circumstances with the consent of the local Moslem inhabitants.

Article 4. Industry and commerce shall be protected from infringement.

Industrial and commercial enterprises operated by landlords and the land and other property used by landlords directly for the operation of industrial and commercial enterprises shall not be confiscated. In the confiscation of feudal land and other property, no infringement upon industry and commerce shall be permitted.

Land and peasant dwellings in the countryside which are owned by

industrialists and merchants shall be requisitioned, but their other rural property and lawful businesses shall be protected from infringement.

Article 5. Revolutionary army men, dependents of martyrs, workers, staff members, professional people and pedlars who rent out small plots of land as well as those in other professions and trades who do so because they lack labour power shall not be classified as landlords. If the average per-capita landholding of such families does not exceed 200 percent of the average per-capita landholding in the locality, it shall remain untouched. (For instance, if the average per-capita landholding in the locality is two *mu*, the average per-capita landholding of such family members shall not exceed four *mu*.) If it exceeds this proportion, the surplus land may be requisitioned. If the land proves to have been purchased with the earnings of the owners' own labour or if old persons living alone, widows or widowers without other means of support, orphans and invalids depend on this land for their livelihood, allowance may be made for such persons according to individual circumstances even though their average per-capita landholding may exceed 200 percent.

Article 6. Land owned by rich peasants and cultivated by them or by hired labour and their other property shall be protected from infringement.

Small tracts of land rented out by rich peasants shall remain untouched. But in certain special areas the land rented out by rich peasants may be requisitioned in part or in whole, with the approval of the people's government at the provincial level or above.

If the large tracts of land rented out by rich peasants of a semi-landlord type exceed in size the land cultivated by themselves and by their hired labour, the land rented out should be requisitioned. The land let by rich peasants should be balanced against the land which they themselves rent for their own use.

Article 7. The land and other property of the middle peasants (including well-to-do middle peasants) shall be protected from infringement.

Article 8. After the liberation of the locality, transfer or dispersal by sale, mortgage, gift or any other means of any land which should be confiscated or requisitioned according to this Law shall be null and void. Such land should be included in the land to be distributed. But if peasants who bought such land or took mortgages on such land will thereby suffer appreciable loss, they should be given appropriate compensation.

Article 9. The legal definitions of landlords, rich peasants, middle peasants, poor peasants, farm labourers and other component classes of rural society will be given separately.

Section Three Distribution of Land

Article 10. All land and other means of production thus confiscated or requisitioned, with the exception of what is to be nationalized in accordance with the stipulations of this Law, shall be taken over by the *hsiang* Peasants' Association for unified, equitable and rational distribution to poverty-stricken peasants who have little or no land and who lack other means of production. Landlords shall be given an equal share so that they can make a living by their own labour and reform themselves through labour.

Article 11. Land shall be distributed by taking the *hsiang* or an administrative village corresponding to a *hsiang* as a unit. Land shall be distributed in a unified manner according to population and in keeping with the principle of allotting the land to its present tiller and making necessary readjustment in landholdings by taking the amount, quality and location of the land into consideration. However, *chu* or county Peasants' Associations may make certain necessary adjustments between various *hsiang* or administrative villages corresponding to the *hsiang*. In areas of extensive territory and sparse population, for convenience of cultivation the unit for land distribution may be smaller and below the level of the *hsiang*. The land lying cross the boundary of two *hsiang* shall be allocated for distribution to the *hsiang* where the present tillers reside.

Article 12. Under the principle of allotting land to the present tiller, land owned by the tiller shall not be drawn upon for distribution during land distribution. When rented land is drawn upon for distribution, proper consideration should be given to the present tiller. The land he acquires through land distribution plus his own landholding (if he has any) shall appropriately be a little more than the landholding, after distribution, of the peasants who had little or no land. The principle here should be that the present tiller should retain the approximate average per-capita landholding in the locality.

If the tiller possesses the surface rights of the land he rents, a portion of land equivalent to the price of the surface rights in that locality shall be reserved for him if the land is drawn upon for distribution.

Article 13. During land distribution, certain special problems concerning the landless and land-poor population shall be settled as follows:

(a) An impoverished peasant family consisting of one or two members with labour power may be given more land than the allotment for one or two persons, provided the land conditions in the *hsiang* permit.

(b) Rural handicraft workers, pedlars, professional people and their dependents should be given a certain amount of land and other means of production according to individual circumstances. But if the earnings from their occupations are sufficient to support their families, no land need to be allotted to them.

(c) If their homes are in the countryside, martyrs' families (the martyr himself should be counted as a member of the family), officers, men, disabled and demobilized servicemen of the People's Liberation Army, functionaries of the people's governments and people's organizations as well as their dependents (including those away with the Army) shall be given shares of land and other means of production equal to those allotted to the peasants. But in the case of the functionaries of the people's governments and people's organizations, less land or none at all may be allotted according to the level of their salaries and other income, and degree to which they are able to support their families.

(d) If local residents take up occupations elsewhere, their dependents still living in the village should be given land and other means of production according to individual circumstances. But if the income of such persons from their occupations is adequate to support their dependents, no land need be allotted to them.

(e) Monks, nuns, Taoists, priests and imams should be given shares of land and other means of production equal to those of the peasants, if they have no other occupation by which to make a living and are able and willing to engage in agricultural work.

(f) Unemployed workers and their dependents who return to the countryside with certificates from municipal people's governments or trade unions should be given shares of land and other means of production equal to those of the peasants, if they want land and are able to engage in agricultural work and if local land conditions permit.

(g) Landlords who have returned after running away, persons who once worked for the enemy but have returned to the countryside, and the dependents of such persons, should be given shares of land and other means of production equal to those of the peasants, provided they are able and willing to earn a living by agricultural work.

(h) No land shall be given to those residing in the countryside whom the people's governments have identified to be collaborationists, traitors, war criminals, counter-revolutionaries, who have committed heinous crimes, or criminals who have persistently sabotaged land reform. Those of their dependents who have not participated in their crimes and have no other occupation by which to make a living and who are able and willing to take up agricultural work should be given shares of land and other means of production equal to those of the peasants.

Article 14. During land distribution, each *hsiang* may reserve a small amount of land, in accordance with the local land conditions, for cultivation by residents of the *hsiang* who have left or fled and whose whereabouts are unknown but who may return, or for use in adjusting land in the *hsiang*. The land thus reserved shall be temporarily placed under the administration of the *hsiang* people's government and rented to peasants for cultivation. However, the total amount of such land must not exceed one percent of all land in the *hsiang*.

Article 15. During land distribution, the people's governments at or above the county level may, in accordance with the local land conditions, set apart a certain amount of land to be nationalized and used for establishing experimental farms or model state farms for one or more counties. Prior to the establishment of such farms, the land may be rented to peasants for cultivation.

Section Four Settlement of Special Land Problems

Article 16. Confiscated and requisitioned hillsides, woods, fish ponds, tea groves, tung oil plantations, mulberry fields, bamboo groves, orchards, reed lands, wasteland and other distributable land should be calculated in terms of ordinary land at an appropriate ratio and distributed together with the ordinary land. In the interests of production these should

be allotted preferentially to the peasants who have hitherto utilized them. Persons receiving them may be given little or no ordinary arable land. If such distribution is detrimental to production, the local people's governments should, in conformity with established customs, place them under democratic management by the people for their proper utilization.

Article 17. Confiscated and requisitioned irrigation works, such as dams and ponds, if they are distributable, should be distributed together with the fields. If it is not advisable to distribute them, the local people's governments should place them under democratic management by the people in conformity with established customs.

Article 18. All large forests, large water conservancy works, large expanses of wasteland, large uncultivated hillsides, big salt fields and mines as well as lakes, marshes, rivers and ports must be nationalized and placed under the management of people's governments. Those managed by private capital shall continue to be operated by the existing management, according to the laws and decrees promulgated by the People's Government.

Article 19. The farms, seedling nurseries and experimental farms that are cultivated with machinery or other modern equipment, and the large bamboo groves, large orchards, large tea groves, large tung oil plantations, large mulberry fields and large pastures—where technique is essential—shall continue to be operated under the existing management and should not be dispersed. But if such land is owned by landlords, it may be nationalized with the approval of the people's governments at the provincial level or above.

Article 20. In the course of the confiscation and requisitioning of land, all graveyards and woods thereon shall remain intact.

Article 21. Scenic spots, cultural relics and places of historical interest should receive proper protection. Ancestral shrines, temples, monasteries, churches and other public buildings and landlords' houses should not be damaged. Surplus houses of landlords in the countryside, which are not suitable for the use of peasants, may be placed under the management of the local people's governments for public use.

Article 22. Wasteland reclaimed after the liberation should not be confiscated during land distribution but should continue to be cultivated by those who reclaimed it. It should not be included in the amount of land for distribution.

Article 23. Small amounts of land, the proceeds from which are essential for the upkeep of bridges, roads, wayside tea pavilions, free ferries and other public facilities in rural areas, may be retained according to established customs and not distributed.

Article 24. Land and houses owned by overseas Chinese should be dealt with by appropriate measures to be determined by the people's governments (or military and administrative committees) of the various Greater Administrative Areas or by provincial people's governments on the principle of consideration for the interests of overseas Chinese and in keeping with the general principles of this Law.

Article 25. Sandy land and alluvial land by the shores of lakes owned by landlords or public bodies shall be nationalized and handled in accordance with appropriate measures to be determined by the people's governments at the provincial level or above.

Article 26. Land bordering railways, highways, river banks and river dykes that is needed for their protection, and land occupied by airfields, harbours and fortifications should not be distributed. The sites of projected railways, highways, waterways and airfields whose date of construction has been fixed shall be reserved with the approval of the people's governments at the provincial level or above.

Article 27. Private persons managing land owned by the state shall not rent it out, sell it or leave it untended. If the private managers no longer need the land, they must return it to the state.

Section Five Organizations and Methods For Carrying Out Land Reform

Article 28. In order to strengthen the leadership of the people's governments in the work of land reform, the people's governments at county level or above should, at the time of land reform, organize land reform committees to be composed of persons elected by people's representative conferences or persons appointed by the people's governments of a higher level. These committees are responsible for directing and handling all matters concerning land reform.

Article 29. *Hsiang* (or an administrative village corresponding to a *hsiang*) peasant mass meetings, peasant representative conferences and

committees of Peasants' Associations elected at such conferences, the peasant congresses at *chu*, county and provincial levels and committees of Peasants' Associations elected at such congresses are the legal executive organizations for reforming the land system.

Article 30. After land reform is completed, the people's governments shall issue title deeds and shall recognize the right of all landowners to manage, buy, sell or rent out land freely. All land contracts made before the reform shall be null and void.

Article 31. The determination of class status shall be carried out according to the decisions concerning the differentiation of class status in the rural areas issued by the Central People's Government. It shall be democratically determined through the use of the method of self-assessment and collective discussion at the *hsiang* (or an administrative village corresponding to a *hsiang*) peasant mass meetings and peasant representative conferences held under the leadership of the *hsiang* (or an administrative village corresponding to a *hsiang*) people's government. If any person concerned is not a member of a Peasants' Association, he should, nevertheless, be invited to attend the meetings, take part in the assessment and be allowed to argue his case. The *hsiang* (or an administrative village corresponding to a *hsiang*) people's government must send the decision to the *chu* people's government for ratification. If any person concerned, or any other person, does not agree with the decision, he may, within 15 days after the announcement of such ratification, lodge an appeal with the county people's tribunal, which shall pass judgment and carry it into effect.

Article 32. A people's tribunal shall be set up in every county in the course of the land reform to ensure its implementation. The tribunal shall travel to different places, to try and punish, according to law, the despotic elements who have committed heinous crimes, to justice, and all persons who resist or violate the provisions of the Land Reform Law and decrees. Indiscriminate arrest and killing, beating, corporal punishment and the like are strictly forbidden.

The regulations governing the organization of the people's tribunal will be enacted separately.

Article 33. To maintain order during land reform and to protect the people's property, it is strictly prohibited to slaughter draught animals or fell trees without authorization, to let land lie untended, or to destroy farm

implements, irrigation works, buildings, crops, etc. Offenders shall be tried and punished by the people's tribunal.

Article 34. To ensure that all land reform measures conform to the interests and wishes of the overwhelming majority of the people, the people's governments at all levels shall be responsible for effectively safeguarding the democratic rights of the people. The peasants and their representatives shall have the right freely to criticize and impeach functionaries of any sphere or level at all meetings. Anyone who infringes on these rights shall be punished according to law.

Section Six Miscellaneous

Article 35. This Law shall apply to the rural areas in general, but not to the areas in the vicinity of big cities for which land reform regulations will be formulated separately.

The big cities referred to in this article shall be determined by the people's governments (or military and administrative committees) of the Greater Administrative Areas according to the circumstances of the cities.

Article 36. This Law shall not apply to areas inhabited by minority nationalities. But in areas where the Han nationality is in the majority, scattered inhabitants of minority nationalities shall be treated in the same way under this Law as the people of Han nationality during the land reform in those localities.

Article 37. This Law shall not apply to areas where land reform has in the main been completed.

Article 38. In all areas where land reform begins after the promulgation of this Law, with the exception of the areas referred to in Articles 35, 36 and 37 of this Law, it shall proceed in accordance with this Law. The time for starting land reform in various places shall be regulated by decree and made public by the people's governments (or military and administrative committees) of the Greater Administrative Areas and provincial people's governments.

Article 39. When this Law is promulgated, each provincial people's government shall in accordance with the principles laid down in this Law and the specific local conditions formulate measures for carrying out land

reform within its territory, submit them to the people's governments (or military and administrative committees) of the Greater Administrative Areas and on ratification put them into effect. They shall be submitted to the Government Administration Council of the Central People's Government for registration.

Article 40. This Law shall come into force after it is adopted and promulgated by the Central People's Government Council.

National Committee of the Chinese People's Political Consultative Conference (CPPCC)

Directive on the Movement to Increase Production and Practise Economy and the Struggle Against Corruption, Waste and Bureaucracy

December 29, 1951

Provincial and Municipal Committees of the Chinese People's Political Consultative Conference:

The three tasks of continuing to strengthen the war of resistance against US aggression and aiding Korea, encouraging and promoting the movement to increase production and practise economy and pushing forward the campaign of ideological remoulding and study are the central political tasks of the CPPCC at present. Following is a directive on the movement to increase production and practise economy and the struggle against corruption, waste and bureaucracy.

The issuance of the call to increase production and practise economy under the present objective circumstances is of particularly great significance. While shouldering the sacred tasks of waging the war of resistance against US aggression and aiding Korea and defending peace in the Far East and the whole world, our country has at present to carry out the arduous tasks of construction in the economic, cultural and education field on a backward foundation. The movement to increase production and practise economy is for the purpose of meeting the needs of these two great, historic tasks. Its development will undoubtedly increase our strength to support the Chinese People's Volunteers and the Korean people in winning the war against aggression. At the same time, it will surely help accumulate wealth for the state and create the necessary conditions for industrialization.

It is necessary to accumulate funds for the industrialization of our country. In accumulating funds, we cannot follow the predatory methods adopted by the capitalist countries such as plundering their colonies or to obtain indemnities through launching wars of aggression. Fundamentally speaking, we can only rely on the people's own strength and this requires that we launch the movement to increase production and practise economy.

In this respect, the socialist construction in the Soviet Union has provided us with valuable experiences. Increasing production and practising economy is therefore by no means a measure for solving temporary difficulties, but an important policy of a regular character that concerns the success of national construction. It is imperative that we push it forward as a long-term mass movement.

The movement to increase production and practise economy must be closely linked with the struggle against corruption, waste and bureaucracy. Corruption and waste are the arch enemies of the movement to increase production and practise economy, and they have seriously impaired the interests of the state and the people. Unless this serious phenomenon is checked and overcome, it will corrode our newborn state organ. Bureaucracy, on its part, is a hotbed of corruption and waste. Where bureaucracy is most serious, corruption and waste are bound to be most rampant. Therefore, without waging resolute struggles against corruption, waste and bureaucracy, the movement to increase production and practise economy cannot proceed smoothly. The struggle against corruption, waste and bureaucracy is meant precisely to pave the way for increasing production and practising economy.

At present, governments at all levels are vigorously carrying out a large-scale struggle against corruption, waste and bureaucracy. The CPPCC organizations in the various places must, through the democratic parties and people's organizations, give energetic support and carry this movement to all social strata, rely on the masses, assist the government and boldly report cases of corruption and waste to the authorities concerned. At the same time, it is also necessary to mobilize the masses to relentlessly expose the criminal acts or certain unscrupulous merchants who bribe our cadres and steal state wealth, thoroughly get rid of the exploiting classes' decadent ways benefiting themselves at the expense of others, eliminate all the pernicious influence of the reactionary Kuomintang, foster new-democratic social ethics, and clear the way for the development of our national construction. We hope that the various localities will, upon receiving this notification, take measures suited to local conditions to help promote this movement in a planned and systematic way. We also hope that they will send to us reports of their work at any time they wish.

Decisions on the Development of Agricultural Producers' Co-operatives Adopted by the Central Committee Of the Communist Party of China*

I

The carrying out in various parts of the country during the past two years of the "Decisions on Mutual Aid and Co-operation in Agricultural Production," adopted by the Central Committee of the Communist Party of China in December, 1951, has proved that the direction and policy defined in the "Decisions" are correct and conform to the general line of the Party in leading the Chinese people step by step to socialism.

The general line of the Party in the transition period calls for the gradual socialist industrialization of the country and the gradual socialist transformation of agriculture, handicraft production and capitalist industry and commerce. The development of our national economy in accordance with the general line requires not only the growth of industry but also a relative growth of agriculture. The development of the productive forces in agriculture, however, is hampered by the existing isolated, scattered, conservative and backward individual small-peasant economy. The growing contradictions between the individual small-peasant economy and socialist industrialization have come more and more to the fore. Small-scale agricultural production has shown ever more clearly that it cannot satisfy the demands of the broad peasant masses for a better life; nor can it meet the requirements of the growing national economy. In order to further expand the productive forces in agriculture, the fundamental task of the Party in the rural areas is to educate the peasants and to get them gradually organized by means of explanations and measures that are within their reach and understanding, so as to carry out, step by step, the socialist transformation of agriculture. The aim is to transform the backward individual small-peasant economy in agriculture, which is capable only of small-scale production, into an advanced, co-operative economy capable of large-scale production, thus

*These decisions were adopted on December 16, 1953, and are applicable throughout China with the exception of certain areas inhabited by national minorities.

gradually overcoming the contradictions arising from the disproportion in the development of the two branches of economy—industry and agriculture. The aim is also to enable all the peasants gradually and finally to shake off their poverty and attain a well-to-do and universally flourishing life.

As experience in our country has shown, the actual path taken by the peasants as they gradually organize themselves for production is as follows: the organization of temporary mutual-aid teams (which represent a simple form of collective labour) and of year-round mutual-aid teams (in which there is a certain division of labour and assignment of specific work on the basis of collective labour and a small amount of commonly owned property); then of agricultural producers' co-operatives (in which the members pool their land as shares and there is unified management and a greater amount of commonly owned property); and finally of agricultural producers' co-operatives of a still higher level (collective farms), which are completely socialist in character and based on the peasants' collective ownership of the means of production. The development of co-operation from embryonic socialist forms to forms more and more socialist in character and finally to the form of a completely socialist character—such is the path of the gradual socialist transformation of agriculture pointed out by our Party.

II

As pointed out by the Central Committee of the Party in its "Decisions on Mutual Aid and Co-operation in Agricultural Production," after the peasants, led by the working class, had overthrown the land ownership of the feudal landlords, they demonstrated their enthusiasm for production in two directions: in individual economy and in mutual aid and co-operation. These two directions reflect the dual character of the peasantry (mainly the middle peasants): they are at one and the same time toilers and property owners. The peasants' enthusiasm for mutual aid and co-operation, arising from the fact that they themselves are toilers, shows that they can be led to socialism; while their enthusiasm for an individual economy, arising from the fact that they are property owners and sellers of agricultural produce, indicates that they have a spontaneous tendency towards capitalism. As a

result, it was inevitable that a struggle should have arisen in the rural areas between the path to socialism and the path to capitalism. With the restoration and gradual upswing of agricultural economy, this struggle has become more and more evident and can no longer be ignored. Our policy is actively and yet carefully to lead the peasants through a number of concrete, appropriate and varied transitional forms from their enthusiasm for an individual economy to enthusiasm for mutual aid and co-operation, thereby overcoming their spontaneous tendency towards capitalism (which stems from their individual economy) and gradually advancing them to socialism. It is possible to implement this policy for the following reasons: first, there is the leadership of the people's state power, headed by the working class, and of socialist industry; secondly, the peasants believe in the correctness of the leadership given by the working class, because they have already achieved liberation and won land under this leadership; thirdly, there is the common interest between the working class and the peasant masses and between the poor and middle peasants in that they are all striving or hoping to shake off capitalist exploitation, which can only enrich the few through exploitation and speculation, while leaving the overwhelming majority of the people poor or bankrupt.

In the last few years, the movement for mutual aid and co-operation in agricultural production in our country has been expanding daily. Up to the present, more than 47,900,000 peasant households, constituting 43 percent of all rural households, have joined temporary or year-round mutual-aid teams and agricultural producers' co-operatives. Of this number, over 273,000 households have joined the more than 14,000 agricultural producers' co-operatives. The movement for mutual aid and co-operation has developed unevenly in various areas, but the role it plays in general in promoting agricultural production proves that the policy of the Party is steadily winning the support of the broad masses of labouring peasants and gradually turning possibility into reality. It has become clear that the Party must give active leadership in the transformation of the individual small-peasant economy and in the development of mutual aid and co-operation in agriculture, and that it must not remain passive and let things drift. If we remain passive and let the movement for mutual aid and co-operation drift, if we remain satisfied with the present condition of the small peasant economy without showing it the correct bright and broad path of socialist

transformation, this drift will certainly lead us to abandon our socialist positions in the countryside, tend to help the spontaneous growth of capitalism there, and thus definitely hamper the growth of productive forces in agriculture and the steady improvement of the peasants' livelihood, upsetting the equilibrium between industry and agriculture, disrupting the planned economy and industrialization of the country, and undermining the worker-peasant alliance. It is obvious that such a policy and such a method would be wrong.

III

In order to continue the development of agricultural production and bring about a fresh upsurge in this respect and to further restrict and gradually eliminate capitalist exploitation in the rural areas, Party committees of all levels must conscientiously implement the "Decisions on Mutual Aid and Co-operation in Agricultural Production" adopted in December 1951 by the Central Committee of the Party. In carrying out this task, they must take account of the diverse political, economic and cultural conditions prevailing in various areas and study the differences in the conditions of various localities and the difference in the rate at which the various types of mutual aid and co-operation are developing. At the same time, they must take into consideration the fact that in the past few years the development of the movement for mutual aid and co-operation in agriculture in various localities has this common feature: that not only are more and more peasant households being drawn into mutual aid and co-operation but also that there has been a marked improvement in its quality as expressed in the increase of the number of year-round mutual-aid teams, and particularly in the experimentation with and development, on various scales and in different areas, of agricultural producers' co-operatives which are characterized by the pooling of land as shares and by unified management. In the course of such experimentation and initial development, these agricultural producers' co-operatives have already fully revealed their superiority and the important role which they can play in the following ways:

1. Agricultural producers' co-operatives can solve certain contradictions which are difficult for mutual-aid teams to overcome, particularly the contradiction between collective labour and scattered

management, thereby showing the right way forward for the mutual-aid teams which have attained a certain degree of development.

2. Unified management of land makes it possible to plant crops on the soil best suited for them; to carry out division of labour and assignment of specific work on the basis of collective labour in a more reasonable and planned way than is done by the mutual-aid teams, and to pool labour power rationally for unified utilization, thus providing conditions for greatly raising the productivity of labour.

3. With centralized management, more labour power and economic power are at the disposal of the co-operative, and this enables it to make fuller and better use of new farming techniques, facilitates the improvement of farming techniques and agricultural capital construction, and thus helps gradually and efficiently to carry out expanded reproduction in agriculture.

4. As a result of increased economies in labour time and labour power, it will become possible to develop subsidiary production on an extensive scale, and consequently to strengthen the economic position of the peasants.

5. By following to some extent the system of distributing income according to the amount of work done, agricultural producers' co-operatives greatly stimulate the initiative and creative activity of the peasants in their work and in learning new techniques.

6. Agricultural producers' co-operatives are able to ensure unity between the poor and middle peasants, and are thus in a better position to wage a struggle against capitalist activities and against the differentiation into rich and poor in the rural areas.

7. Agricultural producers' co-operatives are able to advance step by step towards planned production and thus create conditions which facilitate co-ordination with the state-owned socialist economy in the fields of supply, production and marketing, thereby creating favourable conditions for integrating agricultural production into the state economic plan.

8. Because of their "correct direction, and increased output and income," the agricultural producers' co-operatives can lead the individual peasants, in greater numbers and at a more rapid rate, to take the road of mutual-aid teams and thus pave the way for the development of still more agricultural producers' co-operatives.

9. Owing to the advantages of collective management and the growing improvement of the peasants' standard of living, agricultural

producers' co-operatives can become an excellent school for educating the peasants in collectivism and patriotism in the economic sphere and in their day-to-day relations with each other.

10. In view of the above, it is possible for the existing agricultural producers' co-operatives to become the proper form for leading the peasants to develop co-operatives of a more advanced type (collective farms) which are completely socialist in character. That is to say, they represent a transitional form through which the peasants can be induced to advance naturally and willingly to socialism. This form will enable individual peasants and those who have become members of mutual-aid teams to be quite prepared in advance, both materially and spiritually, for the day when they arrive at a completely socialist agricultural economy, instead of being taken by surprise, thus avoiding various losses which might occur in the course of a sudden change.

The superiority of agricultural producers' co-operatives and the role they play give them an increasingly important position in the present movement for mutual aid and co-operation as a whole, and they are becoming a vital link in our task of leading the movement forward. The Central Committee therefore considers it necessary for the Party committees of all levels to pay greater attention to giving leadership to the development of agricultural producers' co-operatives and to creating, in accordance with the state of affairs prevailing in various areas, conditions for steadily experimenting with and promoting such co-operatives. Such leadership must be guided, as usual, by the policy "only successes are permissible, no failures," thus pushing forward the whole movement for mutual aid and co-operation. At present, Party committees in a number of areas pay far too little attention to this question, and give too little or no leadership at all in it. This state of affairs must be changed.

IV

The development of co-operation in agricultural production must be guided, everywhere and at all times, by the basic principle that it should be voluntary on the part of the peasants. It is absolutely impermissible to attempt to carry out the socialist transformation of small-peasant economy merely by issuing a call from above. Still less is it permissible to order and

force the poor and middle peasants to join the co-operatives, or to take away the peasants' means of production and put them under collective ownership. Compulsion and commandism and expropriating the peasants' means of production are criminal acts which disrupt the alliance of the workers and peasants and the alliance of the poor and middle peasants; they are, therefore, acts which undermine co-operation in agricultural production without bringing it the slightest benefit.

Blind, rash adventurism is totally wrong.

It is imperative that we use persuasion, set good examples and provide state assistance to induce the peasants to organize themselves on a voluntary basis.

We should turn to account the everyday life and personal experiences of the peasants to instil in them the ideas of socialism and co-operation, and constantly to remind them that individual farming has no future inasmuch as by itself it cannot overcome natural calamities and other difficulties; that it cannot bring about the constant expanded reproduction of agriculture, and that even when it is capable of bringing about an increase in production, any such increase can only be very limited. The system of individual farming must, in the long run, turn the majority of peasants into victims of exploitation and speculation by rich peasants, usurers and merchant capitalists, causing them once again to lose their land. Co-operation in agricultural production, therefore, is the only way out for the peasants because it is the only thing that can help them to surmount the difficulties which accompany individual farming, ensure the constant expanded reproduction of agriculture, and, along with socialist industrialization, satisfy the continuously growing material and cultural requirements of the whole of society, including those of the peasants themselves.

The peasants can best be convinced by concrete, practical examples. As

Lenin put it,

We have to give the peasant, who... is a practical man and a realist, concrete examples to prove that the "kommunia" is the best possible thing.

The "communes... must be so organized as to gain the confidence of the peasants." Therefore, in the movement for the development of agricultural producers' co-operatives, the principle of experimenting, of having the leadership set good examples from above for the lower levels, and of steadily

consolidating the results and spreading the experience gained in the movement is completely correct. Without any exception, each province and county where the land reform has been completed must pay serious attention and give guidance to the successful organization of a certain number of agricultural producers' co-operatives. These agricultural producers' co-operatives must be managed in such a proper manner as to prove by their actual operation and the display of their strength that they are superior to individual farming and mutual-aid teams, and consequently, that they are capable of uniting and helping the latter. This will enable the peasants to see with their own eyes that the co-operatives really serve their interests; and, where affairs both inside and outside the co-operatives are carried on reasonably and justly, it will induce the peasant masses to incline to socialism.

At the same time, just as Lenin has also pointed out,

...we know that these co-operatives, artels and collective organizations are innovations, and if support is not given them by the working class in power, they will not take root.

Therefore, the state, led by the working class, while taking into account the relations between peasants organized in mutual-aid teams and agricultural producers' co-operatives and those working individually, must, in accordance with actual requirements and possibilities, render appropriate material assistance to the agricultural producers' co-operatives, such as the extension of agricultural loans at low interest rates, the building of irrigation projects, the establishment of stations for popularizing good agricultural techniques and of new-type farm implement stations on a comparatively large scale. Such assistance will enable the peasants very quickly to realize the practical advantages of the co-operatives and will thus considerably stimulate their growth.

It is evident that, by adopting the series of measures mentioned above, we will be able to avoid errors of rash adventurism and lead the peasants to develop co-operation in agricultural production on a voluntary basis and in a sound way, that is, to develop co-operatives from lower to higher forms, increase their size from small to large, steadily increase their number and spread them from single points to whole areas. We will also be able to win over the peasant masses — at first a small part, then a big part, and finally all — to follow us in our march towards socialism. So long as we do our work properly, the peasants will advance at a relatively quick pace.

V

To ensure the success of the agricultural producers' co-operatives, we must pay attention to the following important points:

1. The basic criteria of the success of agricultural producers' co-operatives are the increases in their production and in the income of their members; increases that will cause the peasants to recognize that the economic prosperity of the co-operatives is the main source of their own continually growing material and cultural well-being. To this end, the agricultural producers' co-operatives must, as far as practicable, raise labour productivity by making full use of the favourable conditions they enjoy, thereby developing the social productive forces in agriculture.

a) Agricultural capital construction and improved farming techniques form the material basis on which the output of agricultural producers' co-operatives can be raised, the members' living standards bettered and their ability to fight natural calamities increased. Such work must be tackled step by step, according to the actual conditions in a given locality and in the co-operatives concerned. In general, the development should be by expansion from a small to a comparatively large scale and from improved or only partially improved techniques to advanced techniques. Agricultural producers' co-operatives in various places have for the past few years been building small-scale irrigation projects, converting dry land into irrigated land, undertaking intensive cultivation and soil amelioration, buying new-type farm implements, using improved seeds, introducing close planting in a proper way, actively storing compost and properly applying it to the land, fighting insect pests and developing animal husbandry and afforestation. All this has played a big role in raising output, demonstrated the superiority of collective farming and provided a proper outlet for part of the peasants' surplus labour power. Therefore, in order to lay a permanent, solid foundation for raising production, agricultural producers' co-operatives in various localities should analyse the experience gained in such activities and find concrete ways of continuously increasing their output by properly adapting this experience to the practical conditions of the locality and of their own co-operatives and by studying the experience gained in other branches

of production. They must guard against the mistake of doing such work in a formalistic and mechanical way.

b) On condition that the main stress is laid on the development of agricultural production, agricultural producers' co-operatives may apply their surplus labour power and surplus funds to the development of subsidiary occupations in such a way as to contribute to the expansion of agricultural production.

Agricultural producers' co-operatives are not permitted to engage in trade as a subsidiary occupation. Business transactions by the agricultural producers' co-operatives must go through the supply and marketing co-operatives. However, it is permissible for an agricultural producers' co-operative to earn money from the transportation of goods, since this is not profit gained from trading.

2. Improvement in the management of agricultural producers' co-operatives must take place gradually, in a way befitting the actual conditions of their development, i.e., from the simple to the complex and from a lower to a higher level, so that such management will prove itself both convenient and practicable for the members and at the same time conform to the need for raising labour productivity.

a) Labour power must be employed in a rational way. The forms of labour organization must be determined by the size of the co-operative, the needs of production, the amount of labour power available and possibilities for further development. For instance, the system of temporary division of labour among production groups might at first be adopted, and then, on the basis of the experience gained by the masses, the system of forming year-round, permanent production teams and brigades to be responsible for the cultivation of specific plots of land on a seasonal basis might gradually be introduced. Where co-operatives have tentatively adopted the system of forming production units to be responsible for cultivation and harvesting specific plots of land on a year-round basis, the masses should, if the system has proved popular with them, be helped continually to summarize their experience, so that such forms of labour organization may be gradually perfected.

Whatever form the organization of labour takes, it must be thoroughly discussed in a democratic way by members of the co-

operative before any plan is decided upon and before each team or brigade is assigned its share and type of work. Those who overfulfil their quota shall be rewarded, and with regard to those who fail to fulfil their task, measures appropriate to the concrete conditions should be taken. All such measures should, however, be discussed and decided upon by the members of the co-operative.

Proper attention should be paid to organizing the labour power of women and people who are able only to do auxiliary work, so that they too can take part in various kinds of work.

b) Assessment of the work done and allotment of points for workdays should be gradually perfected on the basis of the development of production and of the experience of the co-operative members.

One method of assessing the work done and allotting the points for each workday, popular among many co-operatives, is first to work out a certain number of points for each member according to his known capacity for work and skill, and then to decide how many points he is actually to receive according to the quantity and quality of the work done. Payment is made according to the number of points thus earned. (This method is known as the method of "fixed rates with flexible application.")

Another method is to work out the number of points appropriate to each kind of work according to seasonal differences and its quantity and quality, and then to make payment according to the number of points earned by each member for the work actually done. It is up to the members of each co-operative themselves to make proper use of these two methods, but care should be taken to see that there should not be too many meetings, nor too much time spent in meetings to assess the work done and to allot points.

c) Production plans for the whole year, and for each season or part thereof, should be mapped out by stages. For the time being, the scope of the plans should not be too large. For instance, planting of crops, agricultural capital construction, improvement of agricultural techniques, labour organization, development of subsidiary occupations, collaboration with supply and marketing co-operatives, advancement of cultural matters and public health — must all be

expanded gradually, from year to year, on the basis of the development of production and the managerial experience gained.

All plans must be fully prepared and thoroughly discussed with the masses. Both conservatism and utopianism must be guarded against.

In formulating plans and organizing the work of the members, proper care should be taken to leave a certain amount of time for their personal activities and for them to undertake certain subsidiary occupations in their homes. Whatever in the opinion of the members does not require to be included in the sphere of co-operation or collective work, and whatever they do not wish to so include, should not enter into the plans.

d) Necessary, simple, but strict systems of financial management and accounting should gradually be instituted. All disbursements by the co-operative and the use of agricultural loans must be decided upon after democratic discussion. Depending on the size of the expenditure, the power of approval rests either with the general meeting of the co-operative or with the co-operative's council which renders its decision after discussion. All accounts must be properly entered into the books and made public at regular intervals, so that they will be subject to constant supervision by the members.

A basic principle in the management of a socialist enterprise is the practice of economy; this is also the basic principle in the management of an agricultural producers' co-operative. In order to avoid excessive production costs, the co-operative must economize in its expenditure, reduce miscellaneous expenses, eradicate corruption and waste, and guard against hasty investments.

e) Certain essential and practicable systems to clearly define responsibility for all kinds of work should be instituted and enforced (e.g., division of labour and defined responsibility in matters of leadership; and defined responsibility for production, for the use and feeding of draught animals and the use and custody of farm implements, for supervision of work, cultural activities, public health, etc.). Regulations for rewards and penalties should be formulated. Such systems and regulations are designed to strengthen labour discipline and to combat absenteeism, delays and poor organization

resulting in holding up the work, damage and waste of commonly owned property and the absence of definite responsibility for a given task. Through organization and systems, the interests of individual members will be further integrated with the interests of the co-operative as a whole.

f) To improve the various aspects of work involved in managing an agricultural producers' co-operative as described above, one or two persons of good character, having ability to unite with the masses, capacity for management and knowledge of production, should be chosen from among the active elements and trained to become the nucleus of leadership.

3. The reasonable distribution of income promotes production in the agricultural producers' co-operatives and is a decisive condition for their consolidation. In trying to solve this question of the distribution of income, it is necessary to keep in mind the special feature of the present form of agricultural producers' co-operatives. It is a transitional form of co-operative which will lead to complete socialization, and has a dual character including both private and co-operative ownership of property. It is therefore necessary to adopt flexible, diverse and transitional methods in the distribution of income.

a) In the distribution of income, the respective proportion accruing to members for the amount of work done and for land-shares that are invested should be appropriately decided after democratic discussion by the members. In doing this, care should be taken to see that all members receive reasonable benefits, that the distribution helps to promote the development of the agricultural producers' co-operative and of production, and that any excessively high or excessively low proportion, such as might cause dissatisfaction among the members, be avoided. However, the general principle to be followed is to raise gradually and steadily the proportion that is paid for work done, in conformity with the increase in production, the rise in labour productivity and the development of the political consciousness of the masses.

b) Payment for workdays should be based on the quantity and quality of the members' work. Those who do more and better work are to be paid more; those who do less and poorer work are to be paid

less. Payment must be reasonable and fair, based on the amount of work done and the corresponding number of points earned.

Equal pay for equal work should be the rule for both men and women, based on the amount and quality of their work. (For instance, if a woman does work of equal quantity and quality to a man on the same job, she should receive the same pay as a man. If she does more than man, she should be paid more; if her work is inferior or if she can do only half as much as a man, her pay should be accordingly less.) However, in the assignment of work, it is necessary to give due consideration to the special difficulties of women.

When a co-operative is first organized, the cadres working in it should take part in agricultural production, but they should be credited with an appropriate number of workdays whenever they have to leave productive work to look after the affairs of the co-operative. No workdays, however, should be allotted when a cadre is occupied with other matters in the village. When conditions are ripe for the considerable expansion of a co-operative, a certain sum may be allotted, after discussion and agreement by the members, to pay one or two cadres to give their full time to the management of the co-operative.

c) Different forms of payment can be adopted for the use of draught animals and larger farm tools belonging to the members, in accordance with concrete conditions and subject to agreement of the membership. In the beginning, rental is generally the most suitable form. It is also permissible for members to pool their animals and tools as shares in the co-operative and to receive a bonus for them. This is a form already adopted by some co-operatives. The practice of buying animals and tools at a definite price from the members should not be advocated indiscriminately. This should be done only when the members are really willing and when the co-operative has the means to pay the purchase price. Whichever form is adopted, it should first be democratically discussed and a fair and reasonable price fixed so that the payment will not encroach upon the amount paid to the members for labour, thus avoiding hidden exploitation by rich peasants, and that the owners of draught animals and farm tools will not suffer. Reasonable prices and profits should be paid to the members for the

shares they put in, so as to encourage them to increase their investments in the co-operative. This means giving consideration to the interests of the membership as a whole, as well as to the interests of each individual member.

d) As a general principle, the income from subsidiary occupations and from agricultural production should be combined for distribution. However, care should be taken to provide relatively higher remuneration for those types of subsidiary occupations which require a relatively high degree of skill.

e) In accumulating commonly owned property and building up the reserve and welfare funds, the principle of proceeding from the small to the large must be adopted, in accordance with the wishes and financial conditions of the members and the year by year development of production and on condition that a definite rise in the real income of the co-operative members is assured. In this way, the collective interests of the co-operative will be closely linked together with the individual interests of each member.

To summarize the above, the important tasks involved in the success of an agricultural producers' co-operative are to strive for increased production, gradually improve management, and to see that income is distributed reasonably. To ensure the correct and efficient execution of these tasks, it is necessary to have the leadership of the Party and the co-ordinated efforts in the political work. In developing agricultural producers' co-operatives, the Party committees at all levels must make a serious study of the experience gained in such work and adopt appropriate concrete measures, according to the actual conditions of development of individual co-operatives and of the locality. Party committees must constantly draw conclusions from the experience gained by the masses and, on this basis, further improve their work. Leading organizations must not subjectively set norms and requirements that are divorced from or exceed the understanding of the masses gained from their own experience; nor should they force the adoption of norms and requirements which the masses will find hard to accept. In already existing agricultural producers' co-operatives, our attitude should be to work carefully and systematically, rather than rashly and impetuously, for the consolidation and improvement of these co-operatives, so as to render them assistance according to circumstances. Co-operatives

that are already successful must be enabled to work still better, so that every plot of land in the co-operative is well utilized and improved. Co-operatives which have relatively more defects and difficulties must be helped to overcome them, so that they too can gradually achieve success.

VI

Generally speaking, the mutual-aid movement paves the way for agricultural producers' co-operatives through the accumulation of experience by the masses and the training of cadres for leadership. The development of mutual-aid teams forms the basis for the development of agricultural producers' co-operatives. On the other hand, the successful operation of agricultural producers' co-operatives gives impetus to the development of yet more mutual-aid teams. Hence, we must strengthen our leadership in developing agricultural producers' co-operatives as well as of the mutual-aid teams of various types.

The Party committees in all localities must give close attention to the study and utilization of the traditional practices and forms of mutual aid among the peasants and help them to organize on a gradually increasing scale in order to overcome difficulties in agricultural production. In developing the mutual-aid movement, Party committees must gradually reform and improve upon these practices and forms of mutual aid, and replace unreasonable features with reasonable ones. We must bear in mind that to organize individual farmers into mutual-aid teams and to help operate these teams successfully means we have to create the conditions for guiding them towards development into agricultural producers' co-operatives, and later bringing about the complete socialist transformation of agriculture. It would be a serious mistake to neglect the work of mutual-aid teams through failure to regard them as a rudimentary transitional form leading the farmers gradually towards a fully socialist transformation.

Consideration should be given to the fact that, in certain places which are economically and culturally developed, or where the necessary conditions exist among the masses, agricultural producers' co-operatives may be set up without going through the stage of mutual-aid teams; or agricultural producers' co-operatives may develop more rapidly than in

other places. Even so, we still must not overlook the work of mutual-aid teams.

VII

In developing the mutual-aid and co-operative movement, we should also bear in mind "the need for enthusiastic and sincere care, assistance and patient education for the individual farmers," as pointed out in the "Decisions on Mutual Aid and Co-operation in Agricultural Production." We must pursue the policy of giving due consideration to the productive initiative of the individual farmers, extending them loans where necessary and technical assistance where possible to bring their latent productive forces into fuller play, and to help them overcome difficulties and avoid exploitation by rich peasants, usurers and profiteers. Every mutual-aid and co-operative organization should be turned into a nucleus around which the individual farmers rally. As is pointed out in the "Decisions on Mutual Aid and Co-operation in Agricultural Production":

We must realize that only on the basis of our present concern and proper care for the individual farmers will it be possible for them gradually to join mutual-aid and co-operative organizations in the future and will it be possible for us to reach our ultimate goal in the countryside of leading the whole to socialism and communism.

It would be entirely incorrect to permit discrimination or attacks against individual farmers, to allow members of mutual-aid or co-operative organizations to range themselves against individual farmers, or to ignore altogether their potential productive forces.

VIII

Mutual aid and co-operation in agricultural production, supply and marketing co-operatives and credit co-operatives — such are the three forms of co-operation in the rural areas. These three forms of co-operation have different but complementary functions, and are linked together to stimulate one another. They are gradually linking the rural economy with the national

plan of economic construction, and transforming the small-peasant economy on the basis of co-operation in production.

Exploitation through trade, through grain hoarding and speculation and through usury are at present the main forms of capitalist activity in the countryside. The supply and marketing co-operatives and the credit co-operatives, therefore, have great responsibilities. Under the leadership of the state-owned economy, they should gradually help the peasant masses rid themselves of these forms of exploitation, and render assistance to the state in its tasks of purchasing grain and other agricultural produce. They should also endeavour to supply the rural areas with means of production and with consumer goods, develop savings among the farmers and extend low-interest loans to them, thus acting in the interests of agricultural production and promoting the development of the mutual-aid and co-operative movement.

Supply and marketing co-operatives in the rural areas should further enhance and strengthen their links with the mutual-aid teams and agricultural producers' co-operatives by concluding "link-contracts"* with them on a wider scale for supply, production and sale.

Credit co-operatives in the rural areas, in their present stage of development, take various forms: e.g., the credit team, the credit co-operative and the credit department of the supply and marketing co-operative. These credit co-operative organizations should be further developed and improved so that they can be more closely co-ordinated with mutual aid and co-operation in agricultural production, and thus give systematic support to the movement for agricultural co-operation.

Handicraft production at the present stage plays a very important role in the supply of the means of production and consumer goods to the rural areas. Supply and marketing co-operatives and credit co-operatives should foster the development of the necessary local handicraft production, laying particular stress on the development of handicraft co-operatives.

*A "link-contract" is a contract under which the local supply and marketing co-operative ensures the timely supply of farm implements, fertilizers, etc., to the neighbouring mutual-aid teams and agricultural producers' co-operatives, which in turn undertake to provide the supply and marketing co-operative with grain or other produce. - *Lid.*

The development of the mutual-aid and co-operative movement to raise the productive forces in agriculture is thus the central task of the Party in leading rural work. All Party organizations in the rural areas — district and county Party committees, most of the regional Party committees and the provincial Party committees whose work lies chiefly in the administration of the countryside — and all Party cadres above the provincial level engaged in rural work, should gradually shift the main emphasis in their work to this task. They should carry through the Party's present policy, that is, to rely on the firm alliance between the poor and middle peasants, to develop mutual aid and co-operation step by step, and to restrict exploitation by the rich peasants, closely interweaving the political work of the Party with its economic work so as to systematically bring about the socialist transformation of agriculture.

1. All Party committees of the Greater Administrative Areas, provinces, municipalities and counties should work out their year-to-year plans and first five-year plans for the development of mutual aid and co-operation in agriculture, in which special attention should be paid to the drafting of plans for the development of agricultural producers' co-operatives. In formulating these plans, they should follow the general policy of the Central Committee of the Party in economic construction. The steps of development and the target figures for each locality should be fixed only after a serious study has been made of the specific conditions in different places. Then, the plans will be well based.

According to the target figures set for the development of agricultural producers' co-operatives by the leading organs of the Party in each Greater Administrative Area for the period from the winter of 1953 to the late summer of 1954 (before the autumn harvest), the total number of agricultural producers' co-operatives in the country will increase from more than 14,000 to more than 35,800. Of this number, the number of agricultural producers' co-operatives in north China will increase from 6,186 to more than 12,400; in northeast China, from 4,817 to 10,000; in east China, from 2,301 to more than 8,300; in central-south China, from 527 to more than 3,600; in northwest China, from 302 to more than 700; and in southwest China, from 59 to more than 600. The Central Committee of the Party has

approved these target figures and charges Party committees at the various levels to strive for the fulfilment of these plans.

On the basis of the year-by-year development of the mutual-aid and co-operative movement in the period of the First Five-Year Plan, that is to say, by the year 1957, our aim is to increase the number of agricultural producers' co-operatives throughout the country to about 800,000 with a membership of about 20 percent of all peasant households. Upon the completion of the First Five-Year Plan, agricultural producers' co-operatives may possibly become the chief, or almost the chief, mode of agricultural production in some areas; while in others, it will be possible for them to develop only to a certain extent.

The five-year plan should include in its scope the state farms, stations for popularizing good agricultural techniques, new-type farm implement stations, pumping stations and tractor stations, all of which will be set up in various places; and the agricultural producers' co-operatives of a completely socialist character (i.e., collective farms), which will be set up experimentally in places where conditions are most favourable. It should likewise include the supply and marketing co-operatives and credit co-operatives.

2. The county Party committee should be the chief link in leading the mutual-aid and co-operative movement. Party committees at various levels should discuss their work in the agricultural mutual-aid and co-operative movement at regular intervals; county Party committees should assume particular responsibility for success or failure in this work. The secretary of the county Party committee must take personal charge of this work and must assign a certain number of capable cadres to make a regular study of materials on the mutual-aid and co-operative movement and help Party branches at district and *hsiang* levels to solve problems arising in the mutual-aid and co-operative movement.

Members of county Party committees must familiarize themselves with the policies and methods laid down by the Central Committee of the Party for the mutual-aid and co-operative movement, and must guide both the working personnel in the mutual-aid and co-operative movement and the cadres of district and *hsiang* levels in studying such policies and methods and in acquiring the necessary general knowledge of agricultural techniques. The county Party committee must learn to educate and organize Party members and Youth League members so that they can play a leading role in mutual-aid teams and agricultural producers' co-operatives.

3. Party committees of the regional and county and where possible, district levels, should systematically open short-term training courses in mutual aid and co-operation during the agricultural slack seasons; they should enlist just-minded and capable activists from among the masses to attend these classes in order to train ever larger numbers of working personnel to lead the mutual-aid and co-operative movement. Local people's governments should, wherever conditions permit, open training classes in agricultural techniques and accounting.

4. Party committees at various levels should regard the holding at regular intervals of representative conferences on agricultural mutual aid and co-operation at various levels, conferences on agricultural techniques, various discussion meetings, etc., as an important means to educate the masses and cadres. The agenda of the representative conferences should consist chiefly of the following: exchange of experiences, publicity and commendation for those who have worked well, criticism and help for those who have worked badly; election of model peasants; education on ideology and policy, mobilization for the fulfilment of tasks — and all this should be directed towards promoting the development of agricultural mutual-aid teams and agricultural producers' co-operatives. The agenda of technical conferences should consist chiefly of the systematization, improvement and popularization of the farming techniques used by the masses and the introduction of new technical knowledge and experience.

Party committees at various levels should regard summarized experience in production and organization as important material for educating the cadres, Party members and activists from the masses.

5. In carrying out work relating to agricultural producers' co-operatives, village Party organizations must skilfully draw examples from the life of the co-operative members, so as to constantly educate them to realize the difference between the new and old paths. That is, between socialism, which allows no exploitation of man by man and aims at a prosperous life for everybody, and capitalism, which means exploitation of the great majority by the few, enabling the few to enjoy a prosperous life while the vast majority are impoverished. Village Party organizations should also educate co-operative members to understand the significance of the worker-peasant alliance; teach them to identify their own interests with those of the collective and of the state; inspire them to work with ever

greater vigour, making them conscious of the honour of doing more and better work, and thus obtaining a greater income than others and of relying on their own income to improve their standard of living; and make them realize the disgrace of having one's income reduced as a result of laziness. In addition to this, village Party organizations should also educate the members of co-operatives strictly to observe labour discipline and consolidate unity among themselves, especially the unity between the poor and middle peasants and the unity between new and old members of the co-operatives. It is also a task of village Party organizations to educate the members of the agricultural producers' co-operatives, and enable them to become model peasants who abide by the laws of the state, respond promptly to all the calls of the government and give their wholehearted support to the socialist industrialization of the country. Efforts should also be made to teach them to treasure and protect public property and to help form close ties with those peasants who are still working individually. Appropriate methods of persuasion should be adopted in encouraging the members to emulate one another in their work, while proper criticism and self-criticism should also be practised to solve all problems in their way of thinking or in their daily lives. These are tasks that must be undertaken to enlighten co-operative members so as to steadily raise their consciousness of the socialist future; to unceasingly eliminate the bad influences of the rich peasants, and consistently help co-operative members to overcome their individualist ideas. In this way the position of agricultural producers' co-operatives will be further consolidated.

X

The Central Committee of the Party has repeatedly pointed out that the watchword regard to all work relating to the mutual-aid and co-operative movement and with regard to the task of gradually bringing about the socialist transformation of agriculture, is active leadership and steady progress in these tasks. Active leadership means that the leadership of the Party must not lag behind the demands of the masses and the requirements of national construction. And steady progress means that in giving leadership the Party must always take into consideration the degree of consciousness

achieved by the masses as well as the existing objective conditions. The leading organs at all levels must, therefore, have a thorough understanding of the actual conditions of a given place at a given time. Mistakes arising from subjectivism and commandism must not be committed; the leading organs must acquire thorough knowledge of the excellent examples which have existed for some time or been newly evolved in the mutual-aid and co-operative movement of various higher and lower forms in various localities. It is necessary to spread out from points to areas; to combine the creation of good examples with their popularization; and to combine popularization with elevation to still higher forms. It would be an error to go forward blindly, aiming only at increasing the number and size and at higher forms, rather than to exert efforts to set up examples according to concrete conditions and to study these examples carefully. It would also be an error not to popularize the examples that are created but to let them remain isolated cases. Both good and bad experiences, many or few, have been acquired by various places throughout the country. It is the task of leading Party organizations at all levels earnestly to study and sum up all these experiences; to lead the mutual-aid and co-operative movement onto the correct path as laid down by the Central Committee of the Party so as to systematically and gradually bring about the complete transformation of the small-peasant economy; and enable agriculture, led by our industrial enterprises of a socialist character and in co-ordination with the progress of socialist industrialization, to be carried forward successfully to the era of socialism in our country.

APPENDIX III

Circular of the Central Committee of the Communist Party of China, May 16, 1966

To all bureaus of the Central Committee, to Party committees of all provinces, municipalities and autonomous regions, to all central ministries and commissions, to all departments of the state organ, and Party groups and committees of all people's organizations, and to the General Political Department of the People's Liberation Army:

The Party Centre has decided to withdraw and cancel the "Outline Report of the Five-Men Cultural Revolution Group on the Current Academic Discussions" authorized and released on February 12, 1966, to dissolve the former "Five-Men Cultural Revolution Group" and its working organ, and to set up a new cultural revolution group under the Political Bureau Standing Committee. The so-called outline report of the "Five-Men Group" is utterly wrong; it runs against the line of socialist cultural revolution put forward by the Party Centre and Comrade Mao Zedong; it is against the guiding principles of the Tenth Plenary Session of the Eighth Central Committee for the question of class and class struggle in socialist society. This outline report acts overtly in accordance with the great cultural revolution led and initiated personally by Comrade Mao Zedong and his instructions on criticizing Wu Han given at the central working conference held between September and October 1965 (that is, a meeting of the Standing Committee of the Central Political Bureau attended by responsible comrades of all Central Committee bureaus) but covertly acts against them, putting up resistance.

The so-called outline report of the "Five-Men Group" is actually a report by Peng Zhén alone, prepared according to his own views behind the back of Comrade Kang Sheng, a member of the "Five-Men Group," and other comrades. In handling such a document affecting the important question of socialist revolution as a whole, Peng Zhen has never brought it up for deliberations inside the "Five-Men Group," never solicited the

opinions of any local Party committees, never made it clear that it would be submitted to the Party Centre for its examination as its formal document, and, furthermore, without Comrade Mao Zedong's approval, he has hastily released it to the whole Party by most insidious means, arbitrarily and imperiously, by abusing his power and usurping the name of the Party Centre.

The main errors of this outline are as follows:

(1) Taking a bourgeois stand, this outline treats the situation and nature of the current academic criticisms with a bourgeois world outlook, and this confounds the relationship between enemy and ourselves. Our country is faced with a high tide of the great proletarian cultural revolution, which is forcefully lashing out at the decaying ideological cultural positions still held by the bourgeoisie and the survival of feudalism. This outline, instead of inspiring the whole Party to arouse without any restraint the broad masses of workers, farmers and soldiers and cultural fighters of the proletariat to continue to rush forward and attack, makes every effort to draw this movement to the Right. Using confusing, self-contradictory and affected words, it obscures the acute class struggle on the cultural, ideological front at this moment, especially the aim of this great struggle, which is to repudiate Wu Han as well as a large batch of exponents of the bourgeoisie opposed to the Party and socialism (they can be found in the Party Centre, in all central organs, in all provinces, municipalities and autonomous regions). This outline says nothing about the fact that the crucial point of Wu Han's *Hai Rui Removed From Office* is, as Chairman Mao has time and again indicated, the issue of removing some people from office, and so to cover up the grave political nature of this struggle.

(2) This outline betrays the basic thesis of Marxism that all class struggles are political struggles. When the press has started touching on the political question of Wu Han's *Hai Rui Removed From Office*, the authors of the outline actually propose that "discussions in the press must not be confined to the political question and discussions of problems related to academic theories should be fully unfolded." They again declare at various occasions that it is not permissible to dwell on the crucial issue in the criticism of Wu Han, or to touch on the issue of removing the Right opportunists from office at the 1959 Lushan Conference, or to discuss the question of Wu Han and other's opposition to the Party and socialism.

Comrade Mao Zedong often tells us that the struggle against the bourgeoisie in the field of ideology is a prolonged class struggle that cannot be settled by jumping to a political conclusion. Peng Zhen intentionally spreads the rumour among many people that, in the opinion of the Chairman, a political conclusion on the criticism of Wu Han can be drawn in two months from now, adding that the political question will be dealt with two months later. His purpose is to incorporate the political struggle in the cultural field into a so-called "purely academic" discussion as is often bragged about by the bourgeoisie. It is all too clear that this is an attempt to give prominence to bourgeois politics while refusing to give prominence to proletarian politics.

(3) The outline lays special emphasis on the so-called "To open wide." But, by applying the tactic of "stealing the sky and putting up a sham sun" a Chinese saying to mean perpetrating a flagrant fraud it completely distorts the principle of "opening wide" as defined by Comrade Mao Zedong at the Party's National Conference of Propaganda Work in March 1957, and deprives it of its class content. It was when he was dwelling on this issue that Comrade Mao Zedong had pointed out, "We will still have to wage a protracted struggle against bourgeois and petty bourgeois ideology. It is wrong not to understand this and give up ideological struggle. All erroneous ideas, all poisonous weeds, all ghosts and monsters must be subjected to criticism: in no circumstances should they be allowed to spread freely." "Opening wide," he added, "means to let all people express their opinions freely, so that they dare to speak, dare to criticize and dare to debate."

This outline, however, pits the idea of "opening wide" against the proletariat's exposure of the reactionary stand of the bourgeoisie. What it means by "opening wide" is bourgeois liberalization, allowing only the bourgeoisie to "open wide," while forbidding the proletariat to do so, or to counterattack the bourgeoisie; it means to harbour the reactionary bourgeois exponents such as Wu Han and his like. "Opening wide" in the context of this outline is a challenge to Mao Zedong Thought and it answers for the purpose of the bourgeoisie.

(4) While we are starting to fight back the unbridled attacks by the bourgeoisie, the authors of the outline, however, speak of "everybody being equal before truth." This is a bourgeois slogan. With this slogan they give protection to the bourgeoisie, oppose the proletariat, oppose Marxism-

Leninism, oppose Mao Zedong Thought and completely write off the class nature of a truth. In the struggle of the proletariat against the bourgeoisie, of Marxist truth against the bourgeois fallacies and fallacies of all other exploiting classes, it is either the East Wind prevails over the West Wind or the West Wind over the East Wind, absolutely no such thing as equality to speak of. How can there be equality in these fundamental matters, such as the struggle of the proletariat against the bourgeoisie, the dictatorship of the proletariat over the bourgeoisie, its dictatorship in the superstructure, including the entire cultural realm, its continued purge of the exponents of the bourgeoisie who have sneaked into the Communist Party and opposed the red flag by waving the red flag? The old Social Democrats for decades and modern revisionists for 10 years and more have never allowed equality between the proletariat and the bourgeoisie. They completely refuse to acknowledge that the history of mankind running to several thousand years is the history of class struggle; they entirely reject the class struggle waged by the proletariat against the bourgeoisie; they totally negate the revolution of the proletariat against the bourgeoisie and its dictatorship over the bourgeoisie. On the contrary, as faithful lackeys of the bourgeoisie and imperialism, they, together with the bourgeoisie and imperialism, uphold the ideological system of suppression and exploitation of the proletariat by the bourgeoisie and the capitalist social system, while opposing the ideological system of Marxism-Leninism and the socialist social system. They are a group of counter-revolutionaries opposed to communism and the people, and there is no such thing as equality to speak of in their struggle against us, which is a life-and-death struggle. Accordingly, our struggle against them, too, can only be a life-and-death struggle, and our relationship with them can by no means be one of equality, but the relationship of one class oppressing another, that is, a relationship in which the proletariat impose things on or exercise dictatorship over the bourgeoisie, certainly not any other relationship, like, for instance, a relationship on a so-called equal footing, a relationship of peaceful coexistence between the exploited class and the exploiting class, or a relationship based on benevolence, faith and moral obligations.

(5) The outline says: "It is necessary not only to prevail over the opposite side politically but also to excel in and prevail over the opposite side in academic and vocational standard by a wide margin." Such an idea, which

draws no class boundary line in academic matters, also is wrong. The truth in the hands of the proletariat on academic matters, the Marxist-Leninist truth and the truth of Mao Zedong Thought have long ago greatly excelled in and prevailed over the bourgeoisie. This formulation in the outline shows up how its authors try to praise and raise the position of the so-called "academic authorities" of the bourgeoisie, it also shows up their hostility and effort to press the militant, emerging new force representing the proletariat in the academic circles.

(6) Chairman Mao often says, no destruction, no construction. Here, destruction means criticism, revolution. To destroy, it is necessary to argue things out; to argue things out is itself construction; when there is destruction, construction also takes place then and there. It is in the very struggle to destroy the bourgeois ideological system that Marxism-Leninism and Mao Zedong Thought have been founded and developed continuously. This outline, however, actually declares with emphasis that "without construction it is impossible to bring about a real, complete destruction." This in actual fact is to prohibit the destruction of bourgeois ideology and the construction of the proletarian ideology—something diametrically opposed to Mao Zedong Thought, something running counter to our revolutionary struggle carried out on the cultural front to destroy in a big way the bourgeois ideology, something to forbid the proletariat to make revolution.

(7) The outline proposes "not to act arbitrarily and overpower people by dint of one's authority like an academic overlord" and "to take care that no leftist academic workers will embark on the road of the bourgeois experts and academic overlords." But what is an "academic overlord" any way? Who are they? Could it mean that the proletariat should not exercise dictatorship and prevail over the bourgeoisie? Could it mean that the academic matters of the proletariat need not prevail over and destroy bourgeois academic matters? Could it mean that when the academic matters of the proletariat prevails over bourgeois academic matters and destroy the latter, the former is an "academic overlord"? Here the outline is launching an attack on people of the proletarian Leftists, apparently trying to brand Marxist-Leninist "academic overlords" and lend its support to the true bourgeois academic overlords, and help them hold on their tottering position of monopolizing the academic circles. In actual fact, it is those in

power inside the Party taking the capitalist road and giving support to the bourgeois academic overlords, and it is the exponents of the bourgeoisie having sneaked into the Party and protecting the bourgeois overlords, who are big Party overlords—big Party overlords who do not read books and newspapers, who do not get into contact with the masses, who do not have any learning at all, who "prevail over others arbitrarily by dint of their power" and who usurp the name of the Party.

(8) With ulterior motives, the authors of the outline purposely make a mess of things, make a mix-up about the class front to distract people's attention from those to be struggled against, proposing to "rectify the style of work among the unswerving leftists." The main purpose of their hastily presenting this document is to attack the proletarian leftists. They make special efforts to collect materials about the leftists and look for all kinds of pretexts to strike blows at the leftists and also try to hit them even harder in the name of "rectifying the style of work" in a vain attempt to disintegrate the leftists. They openly resist the principle of protecting and supporting the leftists with emphasis on setting up and expanding the ranks of the leftists, as is clearly proposed by Chairman Mao. On the other hand, they give cover to bourgeois exponents who have wormed their way into the Party, to revisionists and renegades, and describe them as "unswerving leftists." They use these tactics try to cherish the aspirations of the bourgeois rightists and sweep the proletarian leftists' prestige into dust. They have a deep hatred for the proletariat and a profound love for the bourgeoisie. Such is the bourgeois outlook of fraternity on the part of the authors of the outline.

(9) At the very inception of this new, fierce struggle waged by the proletariat against the exponents of the bourgeoisie on the ideological front, when, moreover, many places and many sides have not yet joined in the struggle, or although the struggle is already on, the great majority of the Party committees are still not very clear about their part in leading this struggle and are leading it not very seriously and ineffectively, the outline actually repeatedly stress so-called "leadership in the struggle," the need "to be discreet," and "cautious," and the need for "the approval of the leading organs concerned"—all designed to impose numerous restrictions and rules on the proletarian leftists, bind them hand and foot, and place one stumbling block after another for the great proletarian cultural revolution.

In a word, they cannot wait to apply the break, to stage a counterattack and settle scores. The authors of the outline are dead against the published articles by the proletarian leftists striking counter-blows at the reactionary bourgeois "authorities" and withhold those that have yet to be published. As to monsters of all descriptions, they just let them come out freely, which, for many years, have been crammed into our newspapers, broadcasting programmes, periodicals, books, school textbooks, speeches, literary works, films, theatre, ballads, fine art, music, dancing and what not. And yet they have never spoken of placing them under proletarian leadership and subjecting them for approval. From this contrast, it is easy to see where the authors of the outline stand.

(10) In the current struggle, the thing at issue is whether to carry out Comrade Mao Zedong's line of the cultural revolution or to resist it. But the outline actually declares that "we should, through this struggle, under the guidance of Mao Zedong Thought, open up the road to settle this problem (meaning 'thoroughly liquidating the bourgeois thinking in the academic circles')." The works by Comrade Mao Zedong — *On New Democracy*, *Talks at the Yanan Forum of Literature and Art*, *A Letter to Yanan*, *Beiping Opera Theatre After Having Watched "Forced to Go up to Liangshan"*, *On the Correct Handling of Contradictions Among the People* and *Speech at the Chinese Communist Party's National Conference on Propaganda Work* — have already showed us proletariats the way on the cultural, ideological front. And yet the outline says that Mao Zedong has not yet done so and means to open up such a road. Its attempt is to open up, under the cover of the banner "under the guidance of Mao Zedong Thought," a road opposed to Mao Zedong Thought, that is, a road of modern revisionism, or the road of capitalist restoration.

All in all, this outline is opposed to carrying through the socialist revolution to the end, is opposed to the line of cultural revolution of the Party Centre headed by Comrade Mao Zedong; it attacks the proletarian leftists, gives cover to the bourgeois rightists and prepares public opinion for the return of capitalism. This outline is a reflection of the bourgeois thinking inside the Party and is out-and-out revisionism. To fight this revisionist line is in no way a matter of little significance, but a most important major event affecting the destiny of our Party and country and their future, the look of our Party and country in the future, and the world revolution.

Party committees at all levels will immediately stop carrying out the "Outline Report of the Five-Men Group on the Current Academic Discussions." The whole Party must follow Comrade Mao Zedong's instructions, hold high the great banner of the proletarian cultural revolution, thoroughly expose the reactionary bourgeois stand of the so-called "academic authorities" opposing the Party and socialism, thoroughly criticize the reactionary bourgeois thinking in the academic, educational, journalistic, literary and art and the publications circles, and seize the leadership over all of them in the cultural realm. And to achieve this, it is necessary to criticize exponents of the bourgeoisie, who have sneaked into the Party, government, armed forces and the various fields in the cultural realm, and have them purged, some to be transferred from their present office. These people, in particular, must not be entrusted with the job of leading the cultural revolution, and yet, many in the past have been and at present are doing this kind of work. This is extremely dangerous.

The representative figures of the bourgeoisie, who have wormed their way into the Party and government, armed forces and the various cultural circles are a batch of counter-revolutionary revisionists, and when the time comes, they will want to seize political power, replacing proletarian dictatorship with bourgeois dictatorship. Of these people, some have been seen through by us, some have not yet been, some are enjoying our trust and are being trained as our successors, such as persons of the Khrushchov type, who are now sleeping by our side; Party committees at all levels must take full notice of this.

This circular may, together with the wrong document sent out by the Party Centre on February 12 this year, be released to county Party committees, Party committees of cultural organs and Party committees at the regimental level in the armed forces; they are invited to take part in discussions to see which document is wrong and which one is correct, how do they understand this, what are the achievements and what are the mistakes.

Bombard the Headquarters

(My Big-Character Poster)

August 5, 1966

Mao Zedong

How well written are the nation's first Marxist-Leninist big-character poster and the commentary by *Renmin Ribao* commentator! Will comrades please go over that poster and commentary for once. But for more than 50 days, some leading comrades, from central to local levels, have been doing things the other way round, taking a reactionary bourgeois stand and exercising the dictatorship of the bourgeoisie to crack down on the proletarian's raging cultural revolutionary movement, confounding right and wrong, and mixing up black and white to make a foray on the revolutionaries, to suppress differing opinions and carry out a reign of white terror, pleased with what they have done, which inflates the arrogance of the bourgeoisie and suppresses the aspirations of the proletariat—how very vicious! In connection with the right deviation in 1962 and the erroneous tendency in 1964 of being seemingly "left" but actually right, isn't this something thought-provoking?

Decision of the Central Committee of the Chinese Communist Party Concerning the Great Proletarian Cultural Revolution

(Adopted on August 8, 1966)

I

A New Stage in the Socialist Revolution

The great proletarian cultural revolution now unfolding is a great revolution that touches people to their very souls and constitutes a new stage in the development of the socialist revolution in our country, a deeper and more extensive stage.

At the Tenth Plenary Session of the Eighth Central Committee of the Party, Comrade Mao Zedong said: To overthrow a political power, it is always necessary, first of all, to create public opinion, to do work in the ideological sphere. This is true for the revolutionary class as well as for the counter-revolutionary class. This thesis of Comrade Mao Zedong's has been proved entirely correct in practice.

Although the bourgeoisie has been overthrown, it is still trying to use the old ideas, culture, customs and habits of the exploiting classes to corrupt the masses, capture their minds and endeavour to stage a come-back. The proletariat must do just the opposite: It must meet head-on every challenge of the bourgeoisie in the ideological field and use the new ideas, culture, customs and habits of the proletariat to change the mental outlook of the whole of society. At present, our objective is to struggle against and crush those persons in authority who are taking the capitalist road, to criticize and repudiate the reactionary bourgeois academic "authorities" and the ideology of the bourgeoisie and all other exploiting classes and to transform education, literature and art and all other parts of the superstructure that do not correspond to the socialist economic base, so as to facilitate the consolidation and development of the socialist system.

2

The Main Current and the Zigzags

The masses of the workers, farmers, soldiers, revolutionary intellectuals and revolutionary cadres form the main force in this great

cultural revolution. Large numbers of revolutionary young people, previously unknown, have become courageous and daring pathbreakers. They are vigorous in action and intelligent. Through the media of big character posters and great debates, they argue things out, expose and criticize thoroughly, and launch resolute attacks on the open and hidden representatives of the bourgeoisie. In such a great revolutionary movement, it is hardly avoidable that they should show shortcomings of one kind or another, but their main revolutionary orientation has been correct from the beginning. This is the main current in the great proletarian cultural revolution. It is the main direction along which the great proletarian cultural revolution continues to advance.

Since the cultural revolution is a revolution, it inevitably meets with resistance. This resistance comes chiefly from those in authority who have wormed their way into the Party and are taking the capitalist road. It also comes from the old force of habit in society. At present, this resistance is still fairly strong and stubborn. However, the great proletarian cultural revolution is, after all, an irresistible general trend. There is abundant evidence that such resistance will crumble fast once the masses become fully aroused.

Because the resistance is fairly strong, there will be reversals and even repeated reversals in this struggle. There is no harm in this. It tempers the proletariat and other working people, and especially the younger generation, teaches them lessons and gives them experience, and helps them to understand that the revolutionary road is a zigzag one, and not plain sailing.

3

Put Daring Above Everything Else And Boldly Arouse the Masses

The outcome of this great cultural revolution will be determined by whether the Party leadership does or does not dare boldly to arouse the masses.

Currently, there are four different situations with regard to the leadership being given to the movement of cultural revolution by Party organizations at various levels:

- (1) There is the situation in which the persons in charge of Party

organizations stand in the van of the movement and dare to arouse the masses boldly. They put daring above everything else, they are dauntless communist fighters and good pupils of Chairman Mao. They advocate the big-character posters and great debates. They encourage the masses to expose every kind of ghost and monster and also to criticize the shortcomings and errors in the work of the persons in charge. This correct kind of leadership is the result of putting proletarian politics in the forefront and Mao Zedong Thought in the lead.

- (2) In many units, the persons in charge have a very poor understanding of the task of leadership in this great struggle, their leadership is far from being conscientious and effective, and they accordingly find themselves incompetent and in a weak position. They put fear above everything else, stick to out-moded ways and regulations, and are unwilling to break away from conventional practices and move ahead. They have been taken unawares by the new order of things, the revolutionary order of the masses, with the result that their leadership lags behind the situation, lags behind the masses.

- (3) In some units, the persons in charge, who made mistakes of one kind or another in the past, are even more prone to put fear above everything else, being afraid that the masses will catch them out. Actually, if they make serious self-criticism and accept the criticism of the masses, the Party and the masses will make allowances for their mistakes. But if the persons in charge don't, they will continue to make mistakes and become obstacles to the mass movement.

- (4) Some units are controlled by those who have wormed their way into the Party and are taking the capitalist road. Such persons in authority are extremely afraid of being exposed by the masses and therefore seek every possible pretext to suppress the mass movement. They resort to such tactics as shifting the targets for attack and turning black into white in an attempt to lead the movement astray. When they find themselves very isolated and no longer able to carry on as before, they resort still more to intrigues, stabbing people in the back, spreading rumours, and blurring the distinction between revolution and counter-revolution as much as they can, all for the purpose of attacking the revolutionaries.

What the Central Committee of the Party demands of the Party committees at all levels is that they persevere in giving correct leadership, put daring above everything else, boldly arouse the masses, change the state

of weakness and incompetence where it exists, encourage those comrades who have made mistakes but are willing to correct them to cast off their mental burdens and join in the struggle, and dismiss from their leading posts all those in authority who are taking the capitalist road and so make possible the recapture of the leadership for the proletarian revolutionaries.

4

Let the Masses Educate Themselves in the Movement

In the great proletarian cultural revolution, the only method is for the masses to liberate themselves, and any method of doing things on their behalf must not be used.

Trust the masses, rely on them and respect their initiative. Cast out fear. Don't be afraid of disorder. Chairman Mao has often told us that revolution cannot be so very refined, so gentle, so temperate, kind, courteous, restrained and magnanimous. Let the masses educate themselves in this great revolutionary movement and learn to distinguish between right and wrong and between correct and incorrect ways of doing things.

Make the fullest use of big-character posters and great debates to argue matters out, so that the masses can clarify the correct views, criticize the wrong views and expose all the ghosts and monsters. In this way the masses will be able to raise their political consciousness in the course of the struggle, enhance their abilities and talents, distinguish right from wrong and draw a clear line between the enemy and ourselves.

5

Firmly Apply the Class Line of the Party

Who are our enemies? Who are our friends? This is a question of the first importance for the revolution and it is likewise a question of the first importance for the great cultural revolution.

Party leadership should be good at discovering the Left and developing and strengthening the ranks of the Left, and should firmly rely on the revolutionary Left. During the movement this is the only way to isolate thoroughly the most reactionary Rightists, win over the middle and unite with the great majority so that by the end of the movement we shall achieve

the unity of more than 95 percent of the cadres and more than 95 percent of the masses.

Concentrate all forces to strike at the handful of ultra-reactionary bourgeois Rightists and counter-revolutionary revisionists, and expose and criticize to the full their crimes against the Party, against socialism and against Mao Zedong Thought so as to full isolate them to the maximum.

The main target of the present movement are those within the Party who are in authority and are taking the capitalist road.

Care should be taken to distinguish strictly between the anti-Party, anti-socialist Rightists and those who support the Party and socialism but have said or done something wrong or have written some bad articles or other works.

Care should be taken to distinguish strictly between the reactionary bourgeois scholar despots and "authorities" on the one hand and people who have the ordinary bourgeois academic ideas on the other.

6

Correct handling of Contradictions Among the People

A strict distinction must be made between the two different types of contradictions: those among the people and those between ourselves and the enemy. Contradictions among the people must not be made into contradictions between ourselves and the enemy; nor must contradictions between ourselves and the enemy be regarded as those among the people.

It is normal for the masses to hold different views. Contention between different views is unavoidable, necessary and beneficial. In the course of normal and full debate, the masses will affirm what is right, correct what is wrong and gradually reach unanimity.

The method to be used in debates is to present the facts, reason things out, and persuade through reasoning. Any method of forcing a minority holding different views to submit is impermissible. The minority should be protected, because sometimes the truth is with the minority. Even if the minority is wrong, they should still be allowed to argue their case and reserve their views.

When there is a debate, it should be conducted by reasoning, not by coercion or force.

In the course of debate, every revolutionary should be good at thinking

things out for himself and should develop the communist spirit of daring to think, daring to speak and daring to act. On the premise that they have the same main orientation, revolutionary comrades should, for the sake of strengthening unity, avoid endless debate over side issues.

7

Be on Guard Against Those Who Brand the Revolutionary Masses as "Counter-Revolutionaries"

In certain schools, units, and work teams of the cultural revolution, some of the persons in charge have organized counter-attacks against the masses who put up big-character posters against them. These people have even advanced such slogans as: opposition to the leaders of a unit or a work team means opposition to the Party's Central Committee, means opposition to the Party and socialism, means counter-revolution. In this way it is inevitable that their blows will fall on some really revolutionary activists. This is an error on matters of orientation, an error of line, and is absolutely impermissible.

A number of persons who suffer from serious ideological errors, and particularly some of the anti-Party and anti-socialist Rightists, are taking advantage of certain shortcomings and mistakes in the mass movement to spread rumours and gossip, and engage in agitation, deliberately branding some of the masses as "counter-revolutionaries." It is necessary to beware of such "pick-pockets" and expose their tricks in good time.

In the course of the movement, with the exception of cases of active counter-revolutionaries where there is clear evidence of crimes such as murder, arson, poisoning, sabotage or theft of state secrets, which should be handled in accordance with the law, no measures should be taken against students at universities, colleges, middle schools and primary schools because of problems that arise in the movement. To prevent the struggle from being diverted from its main objective, it is not allowed, whatever the pretext, to incite the masses to struggle against each other or the students to do likewise. Even proven Rightists should be dealt with on the merits of each case at a later stage of the movement.

8

The Question of Cadres

The cadres fall roughly into the following four categories:

(1) good;

(2) comparatively good;

(3) those who have made serious mistakes but have not become anti-Party, anti socialist Rightists;

(4) the small number of anti Party, anti socialist Rightists.

In ordinary situations, the first two categories (good and comparatively good) are the great majority.

The anti Party, anti-socialist Rightists must be fully exposed, hit hard, pulled down and completely discredited and their influence eliminated. At the same time, they should be given a way out so that they can turn over a new leaf.

9

Cultural Revolutionary Groups, Committees and Congresses

Many new things have begun to emerge in the great proletarian cultural revolution. The cultural revolutionary groups, committees and other organizational forms created by the masses in many schools and units are something new and of great historic importance.

These cultural revolutionary groups, committees and congresses are excellent new forms of organization whereby under the leadership of the Communist Party the masses are educating themselves. They are an excellent bridge to keep our Party in close contact with the masses. They are organs of power of the proletarian cultural revolution.

The struggle of the proletariat against the old ideas, culture, customs and habits left over from all the exploiting classes over thousands of years will necessarily take a very, very long time. Therefore, the cultural revolutionary groups, committees and congresses should not be temporary organizations but permanent, standing mass organizations. They are suitable not only for colleges, schools and government and other organizations, but generally also for factories, mines, other enterprises, urban districts and villages.

It is necessary to institute a system of general elections, like that of the Paris Commune, for electing members to the cultural revolutionary groups and committees and delegates to the cultural revolutionary congresses. The lists of candidates should be put forward by the revolutionary masses after full discussion, and the elections should be held after the masses have discussed the lists over and over again.

The masses are entitled at any time to criticize members of the cultural revolutionary groups and committees and delegates elected to the cultural revolutionary congresses. If these members or delegates prove incompetent, they can be replaced through election or recalled by the masses after discussion.

The cultural revolutionary groups, committees and congresses in colleges and schools should consist mainly of representatives of the revolutionary students. At the same time, they should have a certain number of representatives of the revolutionary teaching staff and workers.

10 Educational Reform

In the great proletarian cultural revolution a most important task is to transform the old educational system and the old principles and methods of teaching.

In this great cultural revolution, the phenomenon of our schools being dominated by bourgeois intellectuals must be completely changed.

In every kind of school we must apply thoroughly the policy advanced by Comrade Mao Zedong, of education serving proletarian politics and education being combined with productive labour, so as to enable those receiving an education to develop morally, intellectually and physically and to become labourers with socialist consciousness and culture.

The period of schooling should be shortened. Courses should be fewer and better. The teaching material should be thoroughly transformed, in some cases beginning with simplifying complicated material. While their main task is to study, students should also learn other things. That is to say, in addition to their studies they should also learn industrial work, farming and military affairs, and take part in the struggles of the cultural revolution as they occur to criticize the bourgeoisie.

11 The Question of Criticizing by Name in the Press

In the course of the mass movement of the cultural revolution, the criticism of bourgeois and feudal ideology should be well combined with the dissemination of the proletarian world outlook and of Marxism-Leninism, Mao Zedong Thought.

Criticism should be organized of typical bourgeois representatives who have wormed their way into the Party and typical reactionary bourgeois academic "authorities," and this should include criticism of various kinds of reactionary views in philosophy, history, political economy and education, in works and theories of literature and art, in theories of natural science, and in other fields.

Criticism of anyone by name in the press should be decided after discussion by the Party committee at the same level, and in some cases submitted to the Party committee at a higher level for approval.

12 Policy Towards Scientists, Technicians and Ordinary Members Of Working Staffs

As regards scientists, technicians and ordinary members of working staffs, as long as they are patriotic, work energetically, are not against the Party and socialism, and maintain no illicit relations with any foreign country, we should in the present movement continue to apply the policy of "unity, criticism, unity." Special care should be taken of those scientists and scientific and technical personnel who have made contributions. Efforts should be made to help them gradually transform their world outlook and their style of work.

13 The Question of Arrangements for Integration With the Socialist Education Movement in City and Countryside

The cultural and educational units and leading organs of the Party and government in the large and medium cities are the points of concentration of the present proletarian cultural revolution.

The great cultural revolution has enriched the socialist education movement in both city and countryside and raised it to a higher level. Efforts should be made to conduct these two movements in close combination. Arrangements to this effect may be made by various regions and departments in the light of the specific conditions.

The socialist education movement now going on in the countryside and in enterprises in the cities should not be upset where the original

arrangements are appropriate and the movement is going well, but should continue in accordance with the original arrangements. However, the questions that are arising in the present great proletarian cultural revolution should be put to the masses for discussion at a proper time, so as to further foster vigorously proletarian ideology and eradicate bourgeois ideology.

In some places, the great proletarian cultural revolution is being used as the focus in order to add momentum to the socialist education movement and clean things up in the fields of politics, ideology, organization and economy. This may be done where the local Party committee finds it appropriate.

14

Take Firm Hold of the Revolution and Stimulate Production

The aim of the great proletarian cultural revolution is to revolutionize people's ideology and as a consequence to achieve greater, faster, better and more economical results in all fields of work. If the masses are fully aroused and proper arrangements are made, it is possible to carry on both the cultural revolution and production without one hampering the other, while guaranteeing high quality in all our work.

The great proletarian cultural revolution is a powerful force for the development of the social productive forces in our country. Any idea of counterposing the great cultural revolution against the development of production is incorrect.

15

The Armed Forces

In the armed forces, the cultural revolution and the socialist education movement should be carried out in accordance with the instructions of the Military Commission of the Central Committee and the General Political Department of the People's Liberation Army.

16

Mao Zedong Thought Is the Guide for Action in the Great Proletarian Cultural Revolution

In the great proletarian cultural revolution, it is imperative to hold aloft the great red banner of Mao Zedong Thought and put proletarian politics in

command. The movement for the creative study and application of Chairman Mao Zedong's works should be carried forward among the masses of the workers, farmers and soldiers, the cadres and the intellectuals, and Mao Zedong Thought should be taken as the guide for action in the cultural revolution.

In this complex great cultural revolution, Party committees at all levels must study and apply Chairman Mao's works all the more conscientiously and in a creative way. In particular, they must study over and over again Chairman Mao's writings on the cultural revolution and on the Party's methods of leadership, such as *On New Democracy*, *Talks at the Yenan Forum on Literature and Art*, *On the Correct Handling of Contradictions Among the People*, *Speech at the Chinese Communist Party's National Conference on Propaganda Work*, *Some Questions Concerning Methods of Leadership and Methods of Work of Party Committees*.

Party committees at all levels must abide by the directions given by Chairman Mao over the years, namely that they should thoroughly apply the mass line of "from the masses and to the masses" and that they should be pupils before they become teachers. They should try to avoid being one-sided or narrow. They should foster materialist dialectics and oppose metaphysics and scholasticism.

The great proletarian cultural revolution is bound to achieve brilliant victory under the leadership of the Central Committee of the Party headed by Comrade Mao Zedong.

Communique of the Third Plenary Session of the 11th Central Committee of The Communist Party of China (Adopted on December 22, 1978)

The 11th Central Committee of the Communist Party of China held its third plenary session in Beijing between December 18 and 22, 1978. It was attended by 169 Members and 112 Alternate Members of the Central Committee. Hua Guofeng, Chairman of the C.P.C. Central Committee, and Ye Jianying, Deng Xiaoping, Li Xiannian, Chen Yun and Wang Dongxing, Vice-Chairmen, were present. Comrade Hua Guofeng presided over the session and made important speeches.

A central working conference held prior to the session made full preparations for it.

The plenary session decided that, since the work of the Central Committee following its second plenary session had proceeded smoothly and the large-scale nationwide mass movement to expose and criticize Lin Biao and the "gang of four" had in the main been completed victoriously, the stress of the Party's work should shift to socialist modernization as of 1979. The plenary session discussed the international situation and the handling of foreign affairs, reaching the view that the foreign policy of the Party and the government was correct and successful. The plenary session also discussed the question of how to speed the growth of agricultural production and arrangements for the national economic plans for 1979 and 1980 and adopted relevant documents in principle. The plenary session examined and solved a number of important questions left over from history and the question of the contributions and faults, the correctness and incorrectness of some important leaders. In order to meet the needs of socialist modernization, the plenary session decided to strengthen democracy in Party life and in the political life of the state, put forward in explicit terms the Party's ideological line, strengthen the Party's leading organs and set up a Central Commission for Inspecting Discipline. The plenary session elected Comrade Chen Yun an additional Member of the Political Bureau of the Central Committee, Member of the Standing Committee of the Political Bureau of the Central Committee and Vice-

Chairman of the Central Committee, and elected Comrades Deng Yingchao, Hu Yaobang and Wang Zhen additional Members of the Political Bureau of the Central Committee. In view of the changed situation in Party life since the 11th National Congress of the Party and current urgent needs in Party work, the plenary session decided, in a provisional measure, to add nine Members to the Central Committee — Comrades Huang Kecheng, Song Renqiong, Hu Qiaomu, Xi Zhongxun, Wang Renzhong, Huang Huoqing, Chen Zaidao, Han Guang and Zhou Hui — subject to future confirmation by the 12th National Congress of the Party. The plenary session elected Comrade Chen Yun First Secretary of the Central Commission for Inspecting Discipline, Comrade Deng Yingchao Second Secretary, Comrade Hu Yaobang Third Secretary, Comrade Huang Kecheng Permanent Secretary, and Wang Heshou and other comrades Deputy Secretaries. Permanent members and members of the commission were also elected.

The plenary session holds that this session and the earlier central working conference are of great importance in our Party's history. Throughout the two meetings, the participants emancipated their thinking on the basis of Marxism-Leninism-Mao Zedong Thought and spoke freely. They fully revived and brought into full play inner-Party democracy and the Party's fine styles of seeking truth from facts, the mass line, and criticism and self-criticism, and enhanced their unity. The meetings truly brought about "a political situation in which we have both centralism and democracy, both discipline and freedom, both unity of will and personal ease of mind and liveliness," as Comrade Mao Zedong advocated. The plenary session decided to spread this atmosphere throughout the Party and the army and among the people of all nationalities in our country.

(1)

The plenary session expresses satisfaction with the work of the Central Committee in the past 10 months since the second plenary session. There has been great victory in the momentous nationwide political revolution to expose and repudiate Lin Biao and the gang of four; there has been additional restoration and growth of the national economy; there is political stability and unity throughout the country; and significant progress has been made with regard to our foreign policy. All this provides good conditions for the whole Party to shift the emphasis of its work to socialist modernization.

The session points out that our country has achieved new and important success in developing the international united front against hegemonism and in developing friendly relations with countries in all parts of the world. The visits made by our state leaders this year to Korea, Romania, Yugoslavia, Kampuchea, Iran, Burma, Nepal, the Philippines, Bangladesh, Japan, Thailand, Malaysia and Singapore and many other countries in Asia, Africa, Latin America and Europe, the conclusion of the China-Japan Peace and Friendship Treaty and the completion of the negotiations for the normalization of relations between China and the United States are important contributions to peace in Asia and the world as a whole. But the grave danger of war still exists. We must strengthen our national defence, and be prepared to repulse at any moment aggressors from any direction. The plenary session holds that the normalization of relations between China and the United States further places before us the prospect of the return of our sacred territory Taiwan to the embrace of our motherland and the accomplishment of the great cause of reunification. The plenary session expresses welcome to Taiwan compatriots, compatriots in Hongkong and Macao and overseas Chinese, as patriots belonging to one family, to continue making joint and positive contributions to the reunification and construction of their motherland.

In the early years after the founding of the People's Republic, especially after the socialist transformation was in the main completed, Comrade Mao Zedong instructed the whole Party time and again to shift the focus of our work to the field of the economy and technical revolution. Under the leadership of Comrade Mao Zedong and Comrade Zhou Enlai, our Party did a great deal for socialist modernization and scored important achievements. But the work was later interrupted and sabotaged by Lin Biao and the gang of four. Besides, we had some shortcomings and mistakes in our leading work because we lacked experience in socialist construction, and this also hampered the transition in the focus of our Party's work. Since the nationwide mass movement to expose and criticize Lin Biao and the gang of four has fundamentally come to a successful conclusion, though in a small number of places and departments the movement is less developed, still needs some time to catch up and so cannot end simultaneously. On the whole there is every condition needed for that transition. Therefore the plenary session unanimously endorsed the policy decision put forward by

Comrade Hua Guofeng on behalf of the Political Bureau of the Central Committee that, to meet the developments at home and abroad, now is an appropriate time to take the decision to close the large-scale nationwide mass movement to expose and criticize Lin Biao and the gang of four and to shift the emphasis of our Party's work and the attention of the people of the whole country to socialist modernization. This is of major significance for fulfilment of the three-year and eight-year programmes for the development of the national economy and the outline for 23 years, for the modernization of agriculture, industry, national defence and science and technology and for the consolidation of the dictatorship of the proletariat in our country. The general task put forward by our Party for the new period reflects the demands of history and the people's aspirations and represents their fundamental interests. Whether or not we can carry this general task to completion, speed socialist modernization and on the basis of a rapid growth in production improve the people's living standards significantly and strengthen national defence — this is a major issue which is of paramount concern to all our people and of great significance to the cause of world peace and progress. Carrying out the four modernizations requires great growth in the productive forces, which in turn requires diverse changes in those aspects of the relations of production and the superstructure not in harmony with the growth of the productive forces, and requires changes in all methods of management, actions and thinking which stand in the way of such growth. Socialist modernization is therefore a profound and extensive revolution. There is still in our country today a small handful of counter-revolutionary elements and criminals who oppose our socialist modernization and try to undermine it. We must not relax our class struggle against them, nor can we weaken the dictatorship of the proletariat. But as Comrade Mao Zedong pointed out, the large-scale turbulent class struggles of a mass character have in the main come to an end. Class struggle in socialist society, should be carried out on the principle of strictly differentiating the two different types of contradictions and correctly handling them in accordance with the procedures prescribed by the Constitution and the law. It is impermissible to confuse the two different types of contradictions and damage the political stability and unity required for socialist modernization. The plenary session calls on the whole Party, the whole army and the people of all our nationalities to work with one heart and

one mind, enhance political stability and unity, mobilize themselves immediately to go all out, pool their wisdom and efforts and carry out the new Long March to make China a modern, powerful socialist country before the end of this century.

(2)

In preparing for the great task of socialist modernization, the session reviewed the experience and lessons of economic construction since the founding of the People's Republic. The session holds that the fundamental policy put forth in the report *On the Ten Major Relationships* which Comrade Mao Zedong made in 1956, summing up China's experience in economic construction, is an objective reflection of economic law and also an important guarantee for the political stability of society. This report still is significant for guidance today. It has been shown in practice that whenever we maintain the society's necessary political stability and work according to objective economic law, our national economy advances steadily and at a high speed; otherwise, our national economy develops slowly or even stagnates and falls back. While we have achieved political stability and unity and are restoring and adhering to the economic policies that proved effective over a long time, we are now, in the light of the new historical conditions and practical experience, adopting a number of major new economic measures, conscientiously transforming the system and methods of economic management, actively expanding economic co-operation on terms of equality and mutual benefit with other countries on the basis of self-reliance, striving to adopt the world's advanced technologies and equipment and greatly strengthening scientific and educational work to meet the needs of modernization. Therefore, there can be no doubt that our country's economic construction is bound to advance rapidly and steadily once again.

The plenary session discussed arrangements for the national economic plans for 1979 and 1980 and approved them in principle, and proposed that the State Council submit them after revisions to the Second Session of the National People's Congress to be held next year for discussion and adoption. The session feels that these arrangements are both forward-looking and feasible. The session points out that the restoration and development of our national economy since the downfall of the gang of four has been very rapid, and that there have been marked increases in total industrial and agricultural

output value and revenue in 1978. But it has to be noted that due to sabotage by Lin Biao and the gang of four over a long period there are still quite a few problems in the national economy, some major imbalances have not been completely changed and some disorder in production, construction, circulation and distribution has not been fully eliminated. A series of problems left hanging for years as regards the people's livelihood in town and country must be appropriately solved. We must conscientiously solve these problems step by step in the next few years and effectively achieve a comprehensive balance, so as to lay a solid foundation for rapid development. We must make concentrated efforts within the limits of our capabilities to carry out capital construction actively and steadily and not rush things, wasting manpower and material.

The session points out that one of the serious shortcomings in the structure of economic management in our country is the overconcentration of authority, and it is necessary boldly to shift it under guidance from the leadership to lower levels so that the local authorities and industrial and agricultural enterprises will have greater power of decision in management under the guidance of unified state planning; big efforts should be made to simplify bodies at various levels charged with economic administration and transfer most of their functions to such enterprises as specialized companies or complexes; it is necessary to act firmly in line with economic law, attach importance to the role of the law of value, consciously combine ideological and political work with economic methods and give full play to the enthusiasm of cadres and workers for production; it is necessary, under the centralized leadership of the Party, to tackle conscientiously the failure to make a distinction between the Party, the government and the enterprise and to put a stop to the substitution of Party for government and the substitution of government for enterprise administration, to institute a division of responsibilities among different levels, types of work and individuals, increase the authority and responsibility of administrative bodies and managerial personnel, reduce the number of meetings and amount of paper work to raise work efficiency, and conscientiously adopt the practices of examination, reward and punishment, promotion and demotion. These measures will bring into full play the initiative, enthusiasm and creativeness of four levels, the central departments, the local authorities, the enterprises and the workers, and invigorate all branches and links of the socialist economy.

The session discussed in detail questions in agriculture, and agreed to distribute to the provinces, municipalities and autonomous regions for discussion and trial use the Decisions of the Central Committee of the Communist Party of China on Some Questions Concerning the Acceleration of Agricultural Development (Draft) and the Regulations on the Work in the Rural People's Communes (Draft for Trial Use).

The plenary session holds that the whole Party should concentrate its main energy and efforts on advancing agriculture as fast as possible because agriculture, the foundation of the national economy, has been seriously damaged in recent years and remains very weak on the whole. The rapid development of the national economy as a whole and the steady improvement in the living standards of the people of the whole country depend on the vigorous restoration and speeding up of farm production, on resolutely and fully implementing the policy of simultaneous development of farming, forestry, animal husbandry, side-occupations and fisheries, the policy of taking grain as the key link and ensuring an all-round development, the policy of adapting to local conditions and appropriate concentration of certain crops in certain areas, and gradual modernization of farm work. This requires first of all releasing the socialist enthusiasm of our country's several hundred million farmers paying full attention to their material well-being economically and giving effective protection to their democratic rights politically. Taking this as the guideline, the plenary session set forth a series of policies and economic measures aimed at raising present agricultural production. The most important are as follows: The right of ownership by the people's communes, production brigades and production teams and their power of decision must be protected effectively by the laws of the state; it is not permitted to command the manpower, funds, products and material of any production team; the economic organizations at various levels of the people's commune must conscientiously implement the socialist principle of "to each according to his work," work out payment in accordance with the amount and quality of work done, and overcome equalitarianism; small plots of land for private use by commune members, their domestic side-occupations, and village fairs are necessary adjuncts of the socialist economy, and must not be interfered with; the people's communes must resolutely implement the system of three levels of ownership with the production team as the basic accounting unit, and this should remain unchanged.

Organizations at various levels of the people's commune must firmly carry out democratic management and election of cadres and make public their accounts. The session holds that, for a fairly long period to come, the national figures for the agricultural tax and the state purchase of grain will continue to be based on the five-year quotas 1971-75 and that grain purchase must never be excessive. To reduce the disparity in prices between industrial and agricultural products, the plenary session suggests that the State Council make a decision to raise the grain purchase price by 20 percent, starting in 1979 when the summer grain is marketed, and the price for the amount purchased above the quota by an additional 50 percent, and also raise the purchase price for cotton, oil-bearing and sugar crops, animal by products, aquatic and forestry products and other farm and sideline products step by step, depending on the concrete conditions. The factory price and the market price of farm machinery, chemical fertilizer, insecticides, plastics and other manufactured goods for farm use will be cut by 10 to 15 percent in 1979 and 1980 on the basis of reduced cost of production, and these benefits will in general be passed on to the farmers. After the purchase price of farm produce is raised, the urban workers must be guaranteed against a fall in their living standards. The market price of all food grain will remain unchanged, and the selling price of other farm products needed for daily life must also be kept stable; if some prices have to be raised, appropriate subsidies will be given to the consumers. The plenary session also discussed the strengthening of education in agricultural science, the drafting of regional programmes for developing agriculture, forestry and animal husbandry, the establishment of modern farming, forestry, livestock breeding and fishing centres, the active expansion of rural industry and side-occupations run by people's communes and production brigades and other important questions, and decided upon relevant measures.

The plenary session points out that it is imperative to improve the livelihood of the people in town and country step by step on the basis of the growth of production. The bureaucratic attitude of paying no attention at all to urgent problems in the people's livelihood must be resolutely opposed. On the other hand, since our economy is still very backward at present, it is impossible to improve the people's livelihood very rapidly and it is essential to keep the people informed on the relevant state of affairs and to intensify education in the revolutionary ideas of self-reliance and hard struggle among

the youth and other sectors of the people, and leading comrades at all levels must make themselves exemplars in this regard.

(3)

The session had a serious discussion on some major political events which occurred during the "cultural revolution" and certain historical questions left over from an earlier period. It holds that satisfactory settlement of these questions is very necessary for consolidating stability and unity, facilitating the shift in the focus of the work of the whole Party and getting the whole Party, the whole army and the people of all our nationalities to unite as one and to look forward so as to mobilize all positive factors to work for the four modernizations.

The session points out that in 1975, in the period when Comrade Deng Xiaoping was entrusted by Comrade Mao Zedong with the responsibility of presiding over the work of the Central Committee, there were great achievements in all fields of work, with which the whole Party, the whole army and the people throughout the country were satisfied. In accordance with Comrade Mao Zedong's instructions, Comrade Deng Xiaoping and other leading comrades of the Central Committee waged tit-for tat struggles against interference and sabotage by the gang of four. The gang arbitrarily described the political line and the achievements of 1975 as a "Right-deviationist wind to reverse correct verdicts." This reversal of history must be reversed again. The session points out that the Tian An Men incident of April 5, 1976, were entirely revolutionary actions. The great revolutionary mass movement, which unfolded around the Tian An Men incident, in which millions upon millions of people in all parts of the country expressed deep mourning for Comrade Zhou Enlai and indignantly condemned the gang of four, provided the mass base for our Party's success in smashing the gang of four. The plenary session decided to cancel the erroneous documents issued by the Central Committee in regard to the movement "to oppose the Right-deviationist wind to reverse correct verdicts" and the "Tian An Men incident."

The session examined and corrected the erroneous conclusions which had been adopted on Peng Dehuai, Tao Zhu, Bo Yibo, Yang Shangkun and other comrades, and affirmed their contributions to the Party and the people. It points out that historical questions must be settled in accordance

with the principle consistently advocated by Comrade Mao Zedong, that is, seeking truth from facts and correcting mistakes whenever discovered. Only by firmly rejecting false charges, correcting wrong sentences and rehabilitating the victims of frameups can the unity of the Party and the people be consolidated and the high prestige of the Party and Comrade Mao Zedong upheld. This task must be fulfilled resolutely without any relaxation after the mass movement to expose and criticize the gang of four ends. The session unanimously agrees that the adoption of these steps is in itself an example of grasping the scientific system of Mao Zedong Thought comprehensively and accurately and holding high the banner of Chairman Mao.

The session held that the past practice of setting up special-case groups to examine cadres without Party and mass supervision had great disadvantages and must be abolished once and for all.

The session held a serious discussion on the question of democracy and the legal system. It holds that socialist modernization requires centralized leadership and strict implementation of various rules and regulations and observance of labour discipline. Bourgeois factionalism and anarchism must be firmly opposed. But the correct concentration of ideas is possible only when there is full democracy. Since for a period in the past democratic centralism was not carried out in the true sense, centralism being divorced from democracy and there being too little democracy, it is necessary to lay particular emphasis on democracy at present, and on the dialectical relationship between democracy and centralism, so as to make the mass line the foundation of the Party's centralized leadership and the effective direction of the organizations of production. In ideological and political life among the ranks of the people, only democracy is permissible and not suppression or persecution. It is essential to reiterate the "principle of three nots": not seizing on others' faults, not putting labels on people and not using the big stick. Leadership at all levels should be good at concentrating the correct ideas of the masses and making appropriate explanation and persuasion in dealing with incorrect ideas. The constitutional rights of citizens must be resolutely protected and no one has the right to infringe upon them.

In order to safeguard people's democracy, it is imperative to strengthen the socialist legal system so that democracy is systematized and written into

law in such a way as to ensure the stability, continuity and full authority of this democratic system and these laws; there must be laws for people to follow, these laws must be observed, their enforcement must be strict and law breakers must be dealt with. From now on, legislative work should have an important place on the agenda of the National People's Congress and its Standing Committee. Procuratorial and judicial organizations must maintain their independence as is appropriate; they must faithfully abide by the laws, rules and regulations, serve the people's interests, keep to the facts; guarantee the equality of all people before the people's laws and deny anyone the privilege of being above the law.

(4)

The session had a thoroughgoing discussion on continuing to inherit and bring into full play the Marxist style of study advocated by Comrade Mao Zedong, that is, upholding a materialist ideological line. The session unanimously agrees that only if comrades of the whole Party and the people of the whole country, under the guidance of Marxism-Leninism-Mao Zedong Thought, emancipate their thinking, dedicate themselves to the study of new circumstances, things and questions, and uphold the principle of seeking truth from facts, of proceeding from reality and of linking theory with practice can our Party smoothly shift the focus of its work, correctly work out the concrete path, policies, methods and measures for carrying out the four modernizations and correctly transform those aspects of the relations of production and the superstructure that do not correspond with the swiftly developing productive forces.

In the past two years, through the deepening struggle to expose and criticize Lin Biao and the gang of four, many issues of right and wrong in ideology and theory which they turned upside down have been straightened out. However, quite a number of comrades still do not dare to raise questions or deal with them in a straight-forward way. This situation came into being under specific historical conditions. The plenary session calls on comrades of the whole Party and the people of the whole country to continue to free themselves from the mental shackles imposed by Lin Biao and the gang of four and, at the same time, resolutely overcome the bureaucracy caused by the overconcentration of authority, the failure to reward or punish as deserved and the influence of petty producer mentality so as to help the people emancipate their minds and "start up the machinery."

The session highly evaluated the discussion of whether practice is the sole criterion for testing truth, noting that this is of far-reaching historic significance in encouraging comrades of the whole Party and the people of the whole country to emancipate their thinking and follow the correct ideological line. For a party, a country or a nation, if everything had to be done according to books and thinking became ossified, progress would become impossible, life itself would stop and the Party and country would perish.

The session emphatically points out that the great feats performed by Comrade Mao Zedong in protracted revolutionary struggle are indelible. Without his outstanding leadership and without Mao Zedong Thought, it is most likely that the Chinese revolution would not have been victorious up to the present. The Chinese people would still be living under the reactionary rule of imperialism, feudalism and bureaucrat-capitalism and our Party would still be struggling in the dark. Comrade Mao Zedong was a great Marxist. He always adopted the scientific attitude of "one divides into two" towards everyone, including himself. It would not be Marxist to demand that a revolutionary leader be free of all shortcomings and errors. It also would not conform to Comrade Mao Zedong's consistent evaluation of himself. The lofty task of the Party Central Committee on the theoretical front is to lead and educate the whole Party and the people of the whole country to recognize Comrade Mao Zedong's great feats in a historical and scientific perspective, comprehensively and correctly grasp the scientific system of Mao Zedong Thought and integrate the universal principles of Marxism-Leninism-Mao Zedong Thought with the concrete practice of socialist modernization and develop it under the new historical conditions.

The session holds that the "cultural revolution" should also be viewed historically, scientifically and in a down-to-earth way. Comrade Mao Zedong initiated this great revolution primarily in the light of the fact that the Soviet Union had turned revisionist and for the purpose of opposing revisionism and preventing its occurrence. As for the shortcomings and mistakes in the actual course of the revolution, they should be summed up at the appropriate time as experience and lessons so as to unify the views of the whole Party and the people of the whole country. However, there should be no haste about this. Shelving this problem will not prevent us from solving all other problems left over from past history in a down-to-earth manner,

nor will it affect our concentration of efforts to speed up the four modernizations, the greatest historic task of the time.

(5)

Basing itself on the experience and lessons drawn from the history of our Party, the plenary session decided to improve the practice of democratic centralism within the Party, to amplify the Party rules and regulations and to enforce strict discipline in the Party.

At the session Comrade Hua Guofeng laid stress on the importance of collective leadership in the Party Central Committee and Party committees at all levels. He proposed that newspapers and publications throughout the country and works of literature and art give more praise to the worker-farmer-soldier masses, the Party and the revolutionaries of the older generation and give less publicity to any individual. The plenary session fully agreed with Comrade Hua Guofeng's proposal and evaluated it highly, regarding it as an important sign of improvement in democratic life within the Party. The plenary session reiterated Comrade Mao Zedong's consistent view that people in the Party should call each other "comrade" and not address each other by their official titles. No personal view by a Party member in a position of responsibility, including leading comrades of the Central Committee, is to be called an "instruction." The session points out that the Party members' right to raise criticism within the Party concerning the leadership at higher levels, up to Members of the Standing Committee of the Political Bureau of the Central Committee, must be guaranteed and any practice that does not conform to the Party's democratic centralism and the principle of collective leadership should be resolutely corrected.

The session holds that just as a country has its laws, the Party should have its rules and regulations. Observance of Party discipline by all Party members and Party cadres is a minimum requirement for restoring normal political life in the Party and the state. Leading Party cadres at all levels should take the lead in strictly observing Party discipline. Disciplinary measures should be taken against all violators of Party discipline with no exception, so that there is a clear distinction between merits and faults, awards and punishments, so that honesty prevails and bad tendencies are eliminated.

The plenary session elected a 100-member Central Commission for

Inspecting Discipline, headed by Comrade Chen Yun. This is an important measure to guarantee implementation of the Party's political line. The fundamental task of the commission is to enforce Party rules and regulations and develop a good Party style.

The plenary session points out that the efforts made in the two years since the smashing of the gang of four have immensely strengthened unity and heightened the political consciousness of the whole Party, the whole army and the people of all China's nationalities. Comrade Hua Guofeng's call to "solve the problems while stabilizing the situation" and "further emancipate our minds, be more courageous and resourceful and step up the pace" has found a warm response in the hearts of the people. So long as the whole Party applies itself to the study of Marxism-Leninism-Mao Zedong Thought and the know-how needed for socialist modernization, continues to seek truth from facts and uphold the mass line, makes bold innovations and at the same time maintains an attitude of modesty and prudence, makes thorough investigation, gives careful direction and fights no battle ill-prepared or lacking assurance of victory, it can definitely speed up the realization of its general task for the new period, and no difficulty can stop the victorious advance of the Party and the people.

Next year will be the 30th anniversary of the founding of the great People's Republic of China. The Third Plenary Session of the 11th Central Committee issues the following call to all comrades in the Party, to commanders and soldiers throughout the army, to workers, farmers and intellectuals of all nationalities throughout the country, to people in all political parties and to non-party democratic patriots: The best contribution to the 30th anniversary of the founding of our People's Republic will be to shift the emphasis of our work to socialist modernization and to achieve the expected success next year. Let us rally even more closely under the banner of Mao Zedong Thought, rally round the Party Central Committee headed by Comrade Hua Guofeng and advance courageously to make a fundamental change in the backward state of our country so that it becomes a great, modern, socialist power.

On Questions of Party History

—Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China

(Adopted by the Sixth Plenary Session of the 11th Central Committee of the Communist Party of China on June 27, 1981)

Review of the History of the 28 Years Before the Founding of the People's Republic

1. The Communist Party of China has traversed 60 years of glorious struggle since its founding in 1921. In order to sum up its experience in the 32 years since the founding of the People's Republic, we must briefly review the previous 28 years in which the Party led the people in waging the revolutionary struggle for new democracy.

2. The Communist Party of China was the product of the integration of Marxism-Leninism with the Chinese workers' movement and was founded under the influence of the October Revolution in Russia and the May 4th Movement in China and with the help of the Communist International led by Lenin. The Revolution of 1911 led by Dr. Sun Yat-sen, the great revolutionary forerunner, overthrew the Qing Dynasty, thus bringing to an end over 2,000 years of feudal monarchical rule. However, the semi-colonial and semi-feudal nature of Chinese society remained unchanged. Neither the Kuomintang nor any of the bourgeois or petty-bourgeois political groupings and factions found any way out for the country and the nation, nor was it possible for them to do so. The Communist Party of China and the Communist Party of China alone was able to show the people that China's salvation lay in overthrowing once and for all the reactionary rule of imperialism and feudalism and then switching over to socialism. When the Communist Party of China was founded, it had less than 60 members. But it initiated the vigorous workers' movement and the people's anti-imperialist and anti-feudal struggle and grew rapidly and soon became a leading force such as the Chinese people had never before known.

3. In the course of leading the struggle of the Chinese people with its various nationalities for new democracy, the Communist Party of China went through four stages: the Northern Expedition (1924-27) conducted with the co-operation of the Kuomintang, the Agrarian Revolutionary War (1927-37), the War of Resistance Against Japan (1937-45) and the nationwide War of Liberation (1946-49). Twice, first in 1927 and then in 1934, it endured major setbacks. It was not until 1949 that it finally triumphed in the revolution, thanks to the long years of armed struggle in conjunction with other forms of struggle in other fields closely co-ordinated with it.

In 1927, regardless of the resolute opposition of the left wing of the Kuomintang with Soong Ching Ling as its outstanding representative, the Kuomintang controlled by Chiang Kai-shek and Wang Jingwei betrayed the policies of Kuomintang-Communist co-operation and of anti-imperialism and anti-feudalism decided on by Dr. Sun Yat-sen and, in collusion with the imperialists, massacred Communists and other revolutionaries. The Party was still quite inexperienced and, moreover, was dominated by Chen Duxiu's right capitulationism, so that the revolution suffered a disastrous defeat under the surprise attack of a powerful enemy. The total membership of the Party, which had grown to more than 60,000, fell to a little over 10,000.

However, our Party continued to fight tenaciously. Launched under the leadership of Zhou Enlai and several other comrades, the Nanchang Uprising of 1927 fired the opening shot for armed resistance against the Kuomintang reactionaries. The meeting of the Central Committee of the Party held on August 7, 1927 decided on the policy of carrying out agrarian revolution and organizing armed uprisings. Shortly afterwards, the Autumn Harvest and Guangzhou Uprisings and uprisings in many other areas were organized. Led by Comrade Mao Zedong, the Autumn Harvest Uprising in the Hunan-Jiangxi border area gave birth to the First Division of the Chinese Workers' and Peasants' Revolutionary Army and to the first rural revolutionary base area in the Jinggang Mountains. Before long, the insurgents led by Comrade Zhu De arrived at the Jinggang Mountains and joined forces with it. With the progress of the struggle, the Party set up the Jiangxi central revolutionary base area and the Western Hunan-Hubei, the Haifeng-Lufeng, the Hubei-Henan-Anhui, the Qiongya, the Fujian-

Zhejiang-Jiangxi, the Hunan-Hubei-Jiangxi, the Hunan-Jiangxi, the Zuojiang-Youjiang, the Sichuan-Shaanxi, the Shaanxi-Gansu and the Hunan-Hubei-Sichuan-Guizhou and other base areas. The First, Second and Fourth Front Armies of the Workers' and Peasants' Red Army were also born, as were many other Red Army units. In addition, Party organizations and other revolutionary organizations were established and revolutionary mass struggles unfolded under difficult conditions in the Kuomintang areas. In the Agrarian Revolutionary War, the First Front Army of the Red Army and the central revolutionary base area under the direct leadership of Comrades Mao Zedong and Zhu De played the most important role. The front armies of the Red Army defeated in turn a number of "encirclement and suppression" campaigns launched by the Kuomintang troops. But because of Wang Ming's "left" adventurist leadership, the struggle against the Kuomintang's fifth "encirclement and suppression" campaign ended in failure. The First Front Army was forced to embark on the 25,000-li Long March and made its way to northern Shaanxi to join forces with units of the Red Army which had been persevering in struggles there and with its 25th Army which had arrived earlier. The Second and Fourth Front Armies also went on their long march, first one and then the other arriving in northern Shaanxi. Guerrilla warfare was carried on under difficult conditions in the base areas in south China from which the main forces of the Red Army had withdrawn. As a result of the defeat caused by Wang Ming's "left" errors, the revolutionary base areas and the revolutionary forces in the Kuomintang areas sustained enormous losses. The Red Army of 300,000 men was reduced to about 30,000 and the Communist Party of 300,000 members to about 40,000.

In January 1935, the Political Bureau of the Central Committee of the Party convened a meeting in Zunyi during the Long March, which established the leading position of Comrade Mao Zedong in the Red Army and the Central Committee of the Party. This saved the Red Army and the Central Committee of the Party, which were then in critical danger and subsequently made it possible to defeat Zhang Guotao's splittism, bring the Long March to a triumphant conclusion and open up new vistas for the Chinese revolution. It was a vital turning point in the history of the Party.

At a time of national crisis of unparalleled gravity when the Japanese imperialists were intensifying their aggression against China, the Central

Committee of the Party headed by Comrade Mao Zedong decided on and carried out the correct policy of forming an anti-Japanese national united front. Our Party led the students' movement of December 9, 1935 and organized the powerful mass struggle to demand an end to the civil war and resistance against Japan so as to save the nation. The Xian Incident organized by Generals Zhang Xueliang and Yang Hucheng on December 12, 1936 and its peaceful settlement, which our Party promoted, played a crucial historical role in bringing about renewed co-operation between the Kuomintang and the Communist Party and in achieving national unity for resistance against Japanese aggression. During the war of resistance, the ruling clique of the Kuomintang continued to oppose the Communist Party and the people and was passive in resisting Japan. As a result, the Kuomintang suffered defeat after defeat in front operations against the Japanese invaders. Our Party persevered in the policy of maintaining its independence and initiative within the united front, closely relied on the masses of the people, conducted guerrilla warfare behind enemy lines and set up many anti-Japanese base areas. The Eighth Route Army and the New Fourth Army — the reorganized Red Army — grew rapidly and became the mainstay in the war of resistance. The Northeast Anti-Japanese United Army sustained its operations amid formidable difficulties. Diverse forms of anti-Japanese struggle were unfolded on a broad scale in areas occupied by Japan or controlled by Kuomintang. Consequently, the Chinese people were able to hold out in the war for eight long years and win final victory, in co-operation with the people of the Soviet Union and other countries in the anti-fascist war.

During the anti-Japanese war, the Party conducted a rectification movement, a movement of Marxist education. Launched in 1942, it was a tremendous success. It was on this basis that the Enlarged Seventh Plenary Session of the Sixth Central Committee of the Party in 1945 adopted the Resolution on Certain Questions in the History of Our Party and soon afterwards the Party's Seventh National Congress was convened. These meetings summed up our historical experience and laid down our correct line, principles and policies for building a new-democratic New China, enabling the Party to attain an unprecedented ideological, political and organizational unity and solidarity. After the conclusion of the War of Resistance Against Japan, the Chiang Kai-shek government, with the aid of

US imperialism, flagrantly launched an all-out civil war, disregarding the just demand of our Party and the people of the whole country for peace and democracy. With the wholehearted support of the people in all the liberated areas, with the powerful backing of the students' and workers' movements and the struggles of the people of various strata in the Kuomintang areas and with the active co-operation of the democratic parties and non-party democrats, our Party led the People's Liberation Army in fighting the three-year War of Liberation and, after the Liaoxi-Shenyang, Beiping-Tianjin and Huai-Hai campaigns and the successful crossing of the Changjiang (Yangtze) River, in wiping out a total of 8 million Chiang Kai-shek troops. The end result was the overthrow of the reactionary Kuomintang government and the establishment of the great People's Republic of China. The Chinese people had stood up.

4. The victories gained in the 28 years of struggle fully show that:

a) Victory in the Chinese revolution was won under the guidance of Marxism-Leninism. Our Party had creatively applied the basic tenets of Marxism-Leninism and integrated them with the concrete practice of the Chinese revolution. In this way, the great system of Mao Zedong Thought came into being and the correct path to victory for the Chinese revolution was charted. This is a major contribution to the development of Marxism-Leninism.

b) As the vanguard of the Chinese proletariat, the Communist Party of China is a party serving the people wholeheartedly, with no selfish aim of its own. It is a party with both the courage and the ability to lead the people in their indomitable struggle against any enemy. Convinced of all this through their own experience, the Chinese people of whatever nationality came to rally around the Party and form a broad united front, thus forging a strong political unity unparalleled in Chinese history.

c) The Chinese revolution was victorious mainly because we relied on a people's army led by the Party, an army of a completely new type and enjoying flesh-and-blood ties with the people, to defeat a formidable enemy through protracted people's war. Without such an army, it would have been impossible to achieve the liberation of our people and the independence of our country.

d) The Chinese revolution had the support of the revolutionary forces in other countries at every stage, a fact which the Chinese people will never

forget. Yet it must be said that, fundamentally, victory in the Chinese revolution was won because the Chinese Communist Party adhered to the principle of independence and self-reliance and depended on the efforts of the whole Chinese people, whatever their nationality, after they underwent untold hardships and surmounted innumerable difficulties and obstacles together.

e) The victorious Chinese revolution put an end to the rule of a handful of exploiters over the masses of the working people and to the enslavement of the Chinese people of all nationalities by the imperialists and colonialists. The working people have become the masters of the new state and the new society. While changing the balance of forces in world politics, the people's victory in so large a country having nearly one-quarter of the world's population has inspired the people in countries similarly subjected to imperialist and colonialist exploitation and oppression with heightened confidence in their forward march. The triumph of the Chinese revolution is the most important political event since World War II and has exerted a profound and far-reaching impact on the international situation and the development of the people's struggle throughout the world.

5. Victory in the new-democratic revolution was won through long years of struggle and sacrifice by countless martyrs, Party members and people of all nationalities. We should by no means give all the credit to the leaders of the revolution, but at the same time we should not underrate the significant role these leaders have played. Among the many outstanding leaders of the Party, Comrade Mao Zedong was the most prominent. Prior to the failure of the revolution in 1927, he had clearly pointed out the paramount importance of the leadership of the proletariat over the peasants' struggle and the danger of a right deviation in this regard. After its failure, he was the chief representative of those who succeeded in shifting the emphasis in the Party's work from the city to the countryside and in preserving, restoring and promoting the revolutionary forces in the countryside. In the 22 years from 1927 to 1949, Comrade Mao Zedong and other Party leaders managed to overcome innumerable difficulties and gradually worked out an overall strategy and specific policies and directed their implementation, so that the revolution was able to switch from staggering defeats to great victory. Our Party and people would have had to grope in the dark much longer had it not been for Comrade Mao Zedong, who more than once

rescued the Chinese revolution from grave danger, and for the Central Committee of the Party which was headed by him and which charted the firm, correct political course for the whole Party, the whole people and the people's army. Just as the Communist Party of China is recognized as the central force leading the people forward, so Comrade Mao Zedong is recognized as the great leader of the Chinese Communist Party and the whole Chinese people, and Mao Zedong Thought, which came into being through the collective struggle of the Party and the people, is recognized as the guiding ideology of the Party. This is the inevitable outcome of the 28 years of historical development preceding the founding of the People's Republic of China.

Basic Appraisal of the History of the 32 Years Since the Founding of the People's Republic

6. Generally speaking, the years since the founding of the People's Republic of China are years in which the Chinese Communist Party, guided by Marxism-Leninism and Mao Zedong Thought, has very successfully led the whole people in carrying out socialist revolution and socialist construction. The establishment of the socialist system represents the greatest and most profound social change in Chinese history and is the foundation for the country's future progress and development.

7. Our major achievements in the 32 years since the founding of the People's Republic are the following:

a) We have established and consolidated the people's democratic dictatorship led by the working class and based on the worker-farmer alliance, namely, the dictatorship of the proletariat. It is a new type of state power, unknown in Chinese history, in which the people are the masters of their own house. It constitutes the fundamental guarantee for the building of a modern socialist country, prosperous and powerful, democratic and culturally advanced.

b) We have achieved and consolidated nationwide unification of the country, with the exception of Taiwan and other islands, and have thus put an end to the state of disunity characteristic of old China. We have achieved and consolidated the great unity of the people of all nationalities and have

forged and expanded a socialist relationship of equality and mutual help among the more than 50 nationalities. And we have achieved and consolidated the great unity of the workers, farmers, intellectuals and people of other strata and have strengthened and expanded the broad united front, which is led by the Chinese Communist Party in full co-operation with the patriotic democratic parties and people's organizations, and comprises all socialist working people and all patriots who support socialism and patriots who stand for the unification of the motherland, including our compatriots in Taiwan, Hongkong and Macao and Chinese citizens overseas.

c) We have defeated aggression, sabotage and armed provocations by the imperialists and hegemonists, safeguarded our country's security and independence and fought successfully in defence of our border regions.

d) We have built and developed a socialist economy and have in the main completed the socialist transformation of the private ownership of the means of production into public ownership and put into practice the principle of "to each according to his work." The system of exploitation of man by man has been eliminated, and exploiters no longer exist as classes since the overwhelming majority have been remoulded and now live by their own labour.

e) We have scored signal successes in industrial construction and have gradually set up an independent and fairly comprehensive industrial base and economic system. Compared with 1952 when economic rehabilitation was completed, fixed industrial assets, calculated on the basis of their original price, were more than 27 times greater in 1980, exceeding 410,000 million yuan; the output of cotton yarn was 4.5 times greater, reaching 2,930,000 tons; that of coal 9.4 times, reaching 620 million tons; that of electricity 41 times, exceeding 300,000 million kwh; and the output of crude oil exceeded 105 million tons and that of steel 37 million tons; the output value of the engineering industry was 54 times greater, exceeding 127,000 million yuan. A number of new industrial bases have been built in our vast hinterland and the regions inhabited by our minority nationalities. National defence industry started from scratch and is gradually being built up. Much has been done in the prospecting of natural resources. There has been a tremendous growth in railway, highway, water and air transport and post and telecommunications.

f) The conditions prevailing in agricultural production have ex-

perienced a remarkable change, giving rise to big increases in production. The amount of land under irrigation has grown from 300 million *mu* in 1952 to over 670 million *mu*. Flooding by big rivers such as the Changjiang, Huanghe (Yellow River), Huihe, Haihe, Zhujiang (Pearl River), Liaohe and Songhuajiang has been brought under initial control. In our rural areas, where farm machinery, chemical fertilizers and electricity were practically non-existent before liberation, there is now a big increase in the number of agriculture-related tractors and irrigation and drainage equipment and in the quantity of chemical fertilizers applied. The amount of electricity consumed is 7.5 times that generated in the whole country in the early years of liberation. In 1980, the total output of grain was nearly double that in 1952 and that of cotton more than double. Despite the excessive rate of growth in our population, which is now nearly a billion, we have succeeded in basically meeting the needs of our people in food and clothing by our own efforts.

g) There has been substantial growth in urban and rural commerce and in foreign trade. The total value of commodities purchased by enterprises owned by the whole people rose from 17.5 billion yuan in 1952 to 226.3 billion yuan in 1980, registering an increase nearly 13-fold; retail sales rose from 27.7 billion yuan to 214 billion yuan, an increase of 7.7 times. The total value of the state's foreign trade in 1980 was 8.7 times that of 1952. With the growth in industry, agriculture and commerce, the people's livelihood has improved very markedly, as compared with pre-liberation days. In 1980, average consumption per capita in both town and country was nearly twice as much as in 1952, allowing for price changes.

h) Considerable progress has been made in education, science, culture, public health and physical culture. In 1980, enrolment in the various kinds of full-time schools totalled 204 million, 3.7 times the number in 1952. In the past 32 years, the institutions of higher education and vocational schools have turned out nearly 9 million graduates with specialized knowledge or skills. Our achievements in nuclear technology, man-made satellites, rocketry, etc., represent substantial advances in the field of science and technology. In literature and art, large numbers of fine works have appeared to cater for the needs of the people and socialism. With the participation of the masses, sports have developed vigorously, and records have been chalked up in quite a few events. Epidemic diseases with their high mortality rates have been eliminated or largely eliminated, the health of the rural and

urban populations has greatly improved, and average life expectancy is now much higher.

i) Under the new historical conditions, the People's Liberation Army has grown in strength and in quality. No longer composed only of ground forces, it has become a composite army, including the naval and air forces and various technical branches. Our armed forces, which are a combination of the field armies, the regional forces and the militia, have been strengthened. Their quality is now much higher and their technical equipment much better. The PLA is serving as the solid pillar of the people's democratic dictatorship in defending and participating in the socialist revolution and socialist construction.

j) Internationally, we have steadfastly pursued an independent socialist foreign policy, advocated and upheld the Five Principles of Peaceful Coexistence, entered into diplomatic relations with 124 countries and promoted trade and economic and cultural exchanges with still more countries and regions. Our country's place in the United Nations and the Security Council has been restored to us. Adhering to proletarian internationalism, we are playing an increasingly influential and active role in international affairs by enhancing our friendship with the people of other countries, by supporting and assisting the oppressed nations in their cause of liberation, the newly independent countries in their national construction and the people of various countries in their just struggles and by staunchly opposing imperialism, hegemonism, colonialism and racism in defence of world peace. All of which has served to create favourable international conditions for our socialist construction and contributes to the development of a world situation favourable to the people everywhere.

8. New China has not been in existence for very long, and our successes are still preliminary. Our Party has made mistakes owing to its meagre experience in leading the cause of socialism and subjective errors in the Party leadership's analysis of the situation and its understanding of Chinese conditions. Before the "cultural revolution" there were mistakes of enlarging the scope of class struggle and of impetuosity and rashness in economic construction. Later, there was the comprehensive, long-drawn out and grave blunder of the "cultural revolution." All these errors prevented us from scoring the greater achievements of which we should have been capable. It is impermissible to overlook or whitewash mistakes,

which in itself would be a mistake and would give rise to more and worse mistakes. But after all, our achievements in the past 32 years are the main thing. It would be a no less serious error to overlook or deny our achievements or our successful experiences in scoring these achievements. These achievements and successful experiences of ours are the product of the creative application of Marxism-Leninism by our Party and people, the manifestation of the superiority of the socialist system and the base from which the entire Party and people will continue to advance. "Uphold truth and rectify error" — this is the basic stand of dialectical materialism our Party must take. It was by taking this stand that we saved our cause from danger and defeat and won victory in the past. By taking the same stand, we will certainly win still greater victories in the future.

The Seven Years of Basic Completion of the Socialist Transformation

9. From the inception of the People's Republic of China in October 1949 to 1956, our Party led the whole people in gradually realizing the transition from new democracy to socialism, rapidly rehabilitating the country's economy, undertaking planned economic construction and in the main accomplishing the socialist transformation of the private ownership of the means of production in most of the country. The guidelines and basic policies defined by the Party in this historical period were correct and led to brilliant successes.

10. In the first three years of the People's Republic, we cleared the mainland of bandits and the remnant armed forces of the Kuomintang reactionaries, peacefully liberated Tibet, established people's governments at all levels throughout the country, confiscated bureaucrat-capitalist enterprises and transformed them into state-owned socialist enterprises, unified the country's financial and economic work, stabilized commodity prices, carried out agrarian reform in the new liberated areas, suppressed counter-revolutionaries, and unfolded the movements against the "three evils" of corruption, waste and bureaucracy and against the "five evils" of bribery, tax evasion, theft of state property, cheating on government contracts and stealing of economic information, the latter being a movement to beat back the attack mounted by the bourgeoisie. We effectively

transformed the educational, scientific and cultural institutions of old China. While successfully carrying out the complex and difficult task of social reform and simultaneously undertaking the great war to resist US aggression and aid Korea, protect our homes and defend the country, we rapidly rehabilitated the country's economy which had been devastated in old China. By the end of 1952, the country's industrial and agricultural production had attained record levels.

11. On the proposal of Comrade Mao Zedong in 1952, the Central Committee of the Party advanced the general line for the transition period, which was to realize the country's socialist industrialization and socialist transformation of agriculture, handicrafts and capitalist industry and commerce step by step over a fairly long period of time. This general line was a reflection of historical necessity.

a) Socialist industrialization is an indispensable prerequisite to the country's independence and prosperity.

b) With nationwide victory in the new-democratic revolution and completion of the agrarian reform, the contradiction between the working class and the bourgeoisie and between the socialist road and the capitalist road became the principal internal contradiction. The country needed a certain expansion of capitalist industry and commerce which were beneficial to its economy and to the people's livelihood. But in the course of their expansion, things detrimental to the national economy and the people's livelihood were bound to emerge. Consequently, a struggle between restriction and opposition to restriction was inevitable. The conflict of interests became increasingly apparent between capitalist enterprises on the one hand and the economic policies of the state, the socialist state-owned economy, the workers and staff in these capitalist enterprises and the people as a whole on the other. An integrated series of necessary measures and steps, such as the fight against speculation and profiteering, the readjustment and restructuring of industry and commerce, the movement against the "five evils," workers' supervision of production and state monopoly of the purchase and marketing of grain and cotton, were bound to gradually bring backward, anarchic, lop-sided and profit-oriented capitalist industry and commerce into the orbit of socialist transformation.

c) Among the individual farmers, and particularly the poor and lower-middle farmers who had just acquired land in the agrarian reform but lacked

other means of production, there was a genuine desire for mutual aid and co-operation in order to avoid borrowing at usurious rates and even mortgaging or selling their land again with consequent polarization, and in order to expand production, undertake water conservancy projects, ward off natural calamities and make use of farm machinery and new techniques. The progress of industrialization, while demanding agricultural products in ever increasing quantities, would provide stronger and stronger support for the technical transformation of agriculture, and this also constituted a motive force behind the transformation of individual into co-operative farming.

As is borne out by history, the general line for the transition period set forth by our Party was entirely correct.

12. During the period of transition, our Party creatively charted a course for socialist transformation that suited China's specific conditions. In dealing with capitalist industry and commerce, we devised a whole series of transitional forms of state capitalism from lower to higher levels, such as the placing of state orders with private enterprises for the processing of materials or the manufacture of goods, state monopoly of the purchase and marketing of the products of private enterprise, the marketing of products of state-owned enterprises by private shops, and joint state-private ownership of individual enterprises or enterprises of a whole trade, and we eventually realized the peaceful redemption of the bourgeoisie, a possibility envisaged by Marx and Lenin. In dealing with individual farming, we devised transitional forms of co-operation, proceeding from temporary or all-the-year-round mutual-aid teams, to elementary agricultural producers' co-operatives of a semi-socialist nature and then to advanced agricultural producers' co-operatives of a fully socialist nature, always adhering to the principles of voluntariness and mutual benefit, demonstration through advanced examples, and extension of state help. Similar methods were used in transforming individual handicraft industries. In the course of such transformation, the state-capitalist and co-operative economies displayed their unmistakable superiority. By 1956, the socialist transformation of the private ownership of the means of production had been largely completed in most regions. But there had been shortcomings and errors. From the summer of 1955 onwards, we were over-hasty in pressing on with agricultural co-operation and the transformation of private handicraft and commercial establishments; we were far from meticulous, the changes were

too fast, and we did our work in a somewhat summary, stereotyped manner, leaving open a number of questions for a long time. Following the basic completion of the transformation of capitalist industry and commerce in 1956, we failed to do a proper job in employing and handling some of the former industrialists and businessmen. But on the whole, it was definitely a historic victory for us to have effected, and to have effected fairly smoothly, so difficult, complex and profound a social change in so vast a country with its several hundred million people, a change, moreover, which promoted the growth of industry, agriculture and the economy as a whole.

13. In economic construction under the First Five-Year Plan (1953-57), we likewise scored major successes through our own efforts and with the assistance of the Soviet Union and other friendly countries. A number of basic industries, essential for the country's industrialization and yet very weak in the past, were built up. Between 1953 and 1956, the average annual increases in the total value of industrial and agricultural output were 19.6 percent and 4.8 percent respectively. Economic growth was quite fast, with satisfactory economic results, and the key economic sectors were well-balanced. The market prospered, prices were stable. The people's livelihood improved perceptibly. In April 1956, Comrade Mao Zedong made his speech *On the Ten Major Relationships*, in which he initially summed up our experiences in socialist construction and set forth the task of exploring a way of building socialism suited to the specific conditions of our country.

14. The First National People's Congress was convened in September 1954, and it enacted the Constitution of the People's Republic of China. In March 1955, a national conference of the Party reviewed the major struggle against the plots of the careerists Gao Gang and Rao Shushi to split the Party and usurp supreme power in the Party and the state; in this way it strengthened Party unity. In January 1956, the Central Committee of the Party called a conference on the question of the intellectuals. Subsequently, the policy of "letting a hundred flowers blossom and a hundred schools of thought contend" was advanced. These measures spelled out the correct policy regarding intellectuals and the work in education, science and culture and thus brought about a significant advance in these fields. Owing to the Party's correct policies, fine style of work and the consequent high prestige it enjoyed among the people, the vast numbers of cadres, masses, youth and intellectuals earnestly studied Marxism-Leninism and Mao Zedong

Thought and participated enthusiastically in revolutionary and construction activities under the leadership of the Party, so that a healthy and virile revolutionary morality prevailed throughout the country.

15. The Eighth National Congress of the Party held in September 1956 was very successful. The congress declared that the socialist system had been basically established in China; that while we must strive to liberate Taiwan, thoroughly complete socialist transformation, ultimately eliminate the system of exploitation and continue to wipe out the remnant forces of counter-revolution, the principal contradiction within the country was no longer the contradiction between the working class and the bourgeoisie but between the demand of the people for rapid economic and cultural development and the existing state of our economy and culture which fell short of the needs of the people; that the chief task confronting the whole nation was to concentrate all efforts on developing the productive forces, industrializing the country and gradually meeting the people's incessantly growing material and cultural needs; and that although class struggle still existed and the people's democratic dictatorship had to be further strengthened, the basic task of the dictatorship was now to protect and develop the productive forces in the context of the new relations of production. The congress adhered to the principle put forward by the Central Committee of the Party in May 1956, the principle of opposing both conservatism and rash advance in economic construction, that is, of making steady progress by striking an overall balance. It emphasized the problem of the building of the Party in office and the need to uphold democratic centralism and collective leadership, oppose the personality cult, promote democracy within the Party and among the people and strengthen the Party's ties with the masses. The line laid down by the Eighth National Congress of the Party was correct and it charted the path for the development of the cause of socialism and for Party building in the new period.

The 10 Years of Initially Building Socialism in All Spheres

16. After the basic completion of socialist transformation, our Party led the entire people in shifting our work to all-round, large-scale socialist construction. In the 10 years preceding the "cultural revolution" we

achieved very big successes despite serious setbacks. By 1966, the value of fixed industrial assets, calculated on the basis of their original price, was 4 times greater than in 1956. The output of such major industrial products as cotton yarn, coal, electricity, crude oil, steel and mechanical equipment all recorded impressive increases. Beginning in 1965, China became self-sufficient in petroleum. New industries such as the electronic and petrochemical industries were established one after another. The distribution of industry over the country became better balanced. Capital construction in agriculture and its technical transformation began on a massive scale and yielded better and better results. Both the number of tractors for farming and the quantity of chemical fertilizers applied increased over 7 times and rural consumption of electricity 71 times. The number of graduates from institutions of higher education was 4.9 times that of the previous seven years. Educational work was improved markedly through consolidation. Scientific research and technological work, too, produced notable results.

In the 10 years from 1956 to 1966, the Party accumulated precious experience in leading socialist construction. In the spring of 1957, Comrade Mao Zedong stressed the necessity of correctly handling and distinguishing between the two types of social contradictions differing in nature in a socialist society, and made the correct handling of contradictions among the people the main content of the country's political life. Later, he called for the creation of "a political situation in which we have both centralism and democracy, both discipline and freedom, both unity of will and personal ease of mind and liveliness." In 1958, he proposed that the focus of Party and government work be shifted to technical revolution and socialist construction. All this was the continuation and development of the line adopted by the Eighth National Congress of the Party and was to go on serving as a valuable guide. While leading the work of correcting the errors in the great leap forward and the movement to organize people's communes, Comrade Mao Zedong pointed out that there must be no expropriation of the farmers; that a given stage of social development should not be skipped; that egalitarianism must be opposed; that we must stress commodity production, observe the law of value and strike an overall balance in economic planning; and that economic plans must be arranged with the priority proceeding from agriculture to light industry and then to heavy

industry. Comrade Liu Shaoqi said that a variety of means of production could be put into circulation as commodities and that there should be a double-track system for labour as well as for education* in socialist society. Comrade Zhou Enlai said, among other things, that the overwhelming majority of Chinese intellectuals had become intellectuals belonging to the working people and that science and technology would play a key role in China's modernization. Comrade Chen Yun held that plan targets should be realistic, that the scale of construction should correspond to national capability, considerations should be given to both the people's livelihood and the needs of state construction, and that the material, financial and credit balances should be maintained in drawing up plans. Comrade Deng Xiaoping held that industrial enterprises should be consolidated and their management improved and strengthened, and that the system of workers' conferences should be introduced. Comrade Zhu De stressed the need to pay attention to the development of handicrafts and of diverse undertakings in agriculture. Deng Zihui and other comrades pointed out that a system of production responsibility should be introduced in agriculture. All these views were not only of vital significance then, but have remained so ever since. In the course of economic readjustment, the Central Committee drew up draft rules governing the work of the rural people's communes and work in industry, commerce, education, science and literature and art. These rules which were a more or less systematic summation of our experience in socialist construction and embodied specific policies suited to the prevailing conditions remain important as a source of reference for us to this very day.

In short, the material and technical basis for modernizing our country was largely established during that period. It was also largely in the same period that the core personnel for our work in the economic, cultural and other spheres were trained and that they gained their experience. This was the principal aspect of the Party's work in that period.

17. In the course of this decade, there were serious faults and errors in

*The double-track system for labour refers to a combination of the system of the eight-hour day in factories, rural areas and government offices with a system of part-time work and part-time study in factories and rural areas. The double-track system for education means a system of full-time schooling combined with a system of part-time work and part-time study.

the guidelines of the Party's work, which developed through twists and turns.

Nineteen fifty-seven was one of the years that saw the best results in economic work since the founding of the People's Republic owing to the conscientious implementation of the correct line formulated at the Eighth National Congress of the Party. To start a rectification campaign throughout the Party in that year and urge the masses to offer criticisms and suggestions were normal steps in developing socialist democracy. In the rectification campaign a handful of bourgeois rightists seized the opportunity to advocate what they called "speaking out and airing views in a big way" and to mount a wild attack against the Party and the nascent socialist system in an attempt to replace the leadership of the Communist Party. It was therefore entirely correct and necessary to launch a resolute counterattack. But the scope of this struggle was made far too broad and a number of intellectuals, patriotic people and Party cadres were unjustifiably labelled "rightists," with unfortunate consequences.

In 1958, the Second Plenum of the Eighth National Congress of the Party adopted the general line for socialist construction. The line and its fundamental aspects were correct in that it reflected the masses' pressing demand for a change in the economic and cultural backwardness of our country. Its shortcoming was that it overlooked the objective economic laws. Both before and after the plenum, all comrades in the Party and people of all nationalities displayed high enthusiasm and initiative for socialism and achieved certain results in production and construction. However, "left" errors, characterized by excessive targets, the issuing of arbitrary directions, boastfulness and the stirring up of a "communist wind," spread unchecked throughout the country. This was due to our lack of experience in socialist construction and inadequate understanding of the laws of economic development and of the basic economic conditions in China. More important, it was due to the fact that Comrade Mao Zedong and many leading comrades, both at the centre and in the localities, had become smug about their successes, were impatient for quick results and overestimated the role of man's subjective will and efforts. After the general line was formulated, the great leap forward and the movement for rural people's communes were initiated without careful investigation and study and

without prior experimentation. From the end of 1958 to the early stage of the Lushan Meeting of the Political Bureau of the Party's Central Committee in July 1959, Comrade Mao Zedong and the Central Committee led the whole Party in energetically rectifying the errors which had already been recognized. However, in the later part of the meeting, he erred in initiating criticism of Comrade Peng Dehuai and then in launching a Party-wide struggle against "right opportunism." The resolution passed by the Eighth Plenary Session of the Fifth Central Committee of the Party concerning the so-called anti-Party group of Peng Dehuai, Huang Kecheng, Zhang Wentian and Zhou Xiaozhou was entirely wrong. Politically, this struggle gravely undermined inner-Party democracy from the central level down to the grass roots; economically, it cut short the process of the rectification of "left" errors, thus prolonging their influence. It was mainly due to the errors of the great leap forward and of the struggle against "right opportunism" together with a succession of natural calamities and the perfidious scrapping of contracts by the Soviet government that our economy encountered serious difficulties between 1959 and 1961, which caused serious losses to our country and people.

In the winter of 1960, the Central Committee of the Party and Comrade Mao Zedong set about rectifying the "left" errors in rural work and decided on the principle of "readjustment, consolidation, filling out and raising standards" for the economy as a whole. A number of correct policies and resolute measures were worked out and put into effect with Comrades Liu Shaoqi, Zhou Enlai, Chen Yun and Deng Xiaoping in charge. All this constituted a crucial turning point in that historical phase. In January 1962, the enlarged Central Work Conference attended by 7,000 people made a preliminary summing-up of the positive and negative experience of the great leap forward and unfolded criticism and self-criticism. A majority of the comrades who had been unjustifiably criticized during the campaign against "right opportunism" were rehabilitated before or after the conference. In addition, most of the "rightists" had their label removed. Thanks to these economic and political measures, the national economy recovered and developed fairly smoothly between 1962 and 1966.

Nevertheless, "left" errors in the principles guiding economic work were not only not eradicated, but actually grew in the spheres of politics, ideology and culture. At the 10th Plenary Session of the Party's Eighth

Central Committee in September 1962, Comrade Mao Zedong widened and absolutized the class struggle, which exists only within certain limits in socialist society, and carried forward the viewpoint he had advanced after the anti-Rightist struggle in 1957 that the contradiction between the proletariat and the bourgeoisie remained the principal contradiction in our society. He went a step further and asserted that, throughout the historical period of socialism, the bourgeoisie would continue to exist and would attempt a comeback and become the source of revisionism inside the Party. The socialist education movement unfolded between 1963 and 1965 in some rural areas and at the grass-roots level in a small number of cities did help to some extent to improve the cadres' style of work and economic management. But, in the course of the movement, problems differing in nature were all treated as forms of class struggle or its reflections inside the Party. As a result, quite a number of the cadres at the grass-roots level were unjustly dealt with in the latter half of 1964, and early in 1965 the erroneous thesis was advanced that the main target of the movement should be "those Party persons in power taking the capitalist road." In the ideological sphere, a number of literary and art works and schools of thought and a number of representative personages in artistic, literary and academic circles were subjected to unwarranted, inordinate political criticism. And there was an increasingly serious "left" deviation on the question of intellectuals and on the question of education, science and culture. These errors eventually culminated in the "cultural revolution," but they had not yet become dominant.

Thanks to the fact that the whole Party and people had concentrated on carrying out the correct principle of economic readjustment since the winter of 1960, socialist construction gradually flourished again. The Party and the people were united in sharing weal and woe. They overcame difficulties at home, stood up to the pressure of the Soviet leading clique and repaid all the debts owed to the Soviet Union, which were chiefly incurred through purchasing Soviet arms during the movement to resist US aggression and aid Korea. In addition, they did what they could to support the revolutionary struggles of the people of many countries and assist them in their economic construction. The Third National People's Congress, which met between the end of 1964 and the first days of 1965, announced that the task of national economic readjustment had in the main been accomplished

and that the economy as a whole would soon enter a new stage of development. It called for energetic efforts to build China step by step into a socialist power with modern agriculture, industry, national defence and science and technology. This call was not fulfilled owing to the "cultural revolution."

18. All the successes in these 10 years were achieved under the collective leadership of the Central Committee of the Party headed by Comrade Mao Zedong. Likewise, responsibility for the errors committed in the work of this period rested with the same collective leadership. Although Comrade Mao Zedong must be held chiefly responsible, we cannot lay the blame on him alone for all those errors. During this period, his theoretical and practical mistakes concerning class struggle in a socialist society became increasingly serious, his personal arbitrariness gradually undermined democratic centralism in Party life and the personality cult grew graver and graver. The Central Committee of the Party failed to rectify these mistakes in good time. Careerists like Lin Biao, Jiang Qing and Kang Sheng, harbouring ulterior motives, made use of these errors and inflated them. This led to the inauguration of the "cultural revolution."

The Decade of the "Cultural Revolution"

19. The "cultural revolution," which lasted from May 1966 to October 1976, was responsible for the most severe setback and the heaviest losses suffered by the Party, the state and the people since the founding of the People's Republic. It was initiated and led by Comrade Mao Zedong. His principal theses were that many representatives of the bourgeoisie and counter-revolutionary revisionists had sneaked into the Party, the government, the army and cultural circles, and leadership in a fairly large majority of organizations and departments was no longer in the hands of Marxists and the people; that Party persons in power taking the capitalist road had formed a bourgeois headquarters inside the Central Committee which pursued a revisionist political and organizational line and had agents in all provinces, municipalities and autonomous regions, as well as in all central departments; that since the forms of struggle adopted in the past had not been able to solve this problem, the power usurped by the capitalist-

roaders could be recaptured only by carrying out a great cultural revolution, by openly and fully mobilizing the broad masses from the bottom up to expose these sinister phenomena; and that the cultural revolution was in fact a great political revolution in which one class would overthrow another, a revolution that would have to be waged time and again. These theses appeared mainly in the May 16 Circular, which served as the programmatic document of the "cultural revolution," and in the political report to the Ninth National Congress of the Party in April 1969. They were incorporated into a general theory — the "theory of continued revolution under the dictatorship of the proletariat" — which then took on a specific meaning. These erroneous "left" theses, upon which Comrade Mao Zedong based himself in initiating the "cultural revolution," were obviously inconsistent with the system of Mao Zedong Thought, which is the integration of the universal principles of Marxism-Leninism with the concrete practice of the Chinese revolution. These theses must be thoroughly distinguished from Mao Zedong Thought. As for Lin Biao, Jiang Qing and others, who were placed in important positions by Comrade Mao Zedong, the matter is of an entirely different nature. They rigged up two counter-revolutionary cliques in an attempt to seize supreme power and, taking advantage of Comrade Mao Zedong's errors, committed many crimes behind his back, bringing disaster to the country and the people. As their counter-revolutionary crimes have been fully exposed, this resolution will not go into them at any length.

20. The history of the "cultural revolution" has proved that Comrade Mao Zedong's principal theses for initiating this revolution conformed neither to Marxism-Leninism nor to Chinese reality. They represent an entirely erroneous appraisal of the prevailing class relations and political situation in the Party and state.

a) The "cultural revolution" was defined as a struggle against the revisionist line or the capitalist road. There were no grounds at all for this definition. It led to the confusing of right and wrong on a series of important theories and policies. Many things denounced as revisionist or capitalist during the "cultural revolution" were actually Marxist and socialist principles, many of which had been set forth or supported by Comrade Mao Zedong himself. The "cultural revolution" negated many of the correct principles, policies and achievements of the 17 years after the founding of the People's Republic. In fact, it negated much of the work of the Central

Committee of the Party and the People's Government, including Comrade Mao Zedong's own contribution. It negated the arduous struggles the entire people had conducted in socialist construction.

b) The confusing of right and wrong inevitably led to confusing the people with the enemy. The "capitalist-roaders" overthrown in the "cultural revolution" were leading cadres of Party and government organizations at all levels, who formed the core force of the socialist cause. The so-called bourgeois headquarters inside the Party headed by Liu Shaoqi and Deng Xiaoping simply did not exist. Irrefutable facts have proved that labelling Comrade Liu Shaoqi a "renegade, hidden traitor and scab" was nothing but a frame-up by Lin Biao, Jiang Qing, and their followers. The political conclusion concerning Comrade Liu Shaoqi drawn by the 12th Plenary Session of the Eighth Central Committee of the Party and the disciplinary measures it meted out to him were both utterly wrong. The criticism of the so-called reactionary academic authorities in the "cultural revolution" during which many capable and accomplished intellectuals were attacked and persecuted also badly muddled up the distinction between the people and the enemy.

c) Nominally, the "cultural revolution" was conducted by directly relying on the masses. In fact, it was divorced both from the Party organizations and from the masses. After the movement started, Party organization at different levels were attacked and became partially or wholly paralysed, the Party's leading cadres at various levels were subjected to criticism and struggle, inner-Party life came to a standstill, and many activists and large numbers of the basic masses whom the Party has long relied on were rejected. At the beginning of the "cultural revolution," the vast majority of participants in the movement acted out of their faith in Comrade Mao Zedong and the Party. Except for a handful of extremists, however, they did not approve of launching ruthless struggles against leading Party cadres at all levels. With the lapse of time, following their own circuitous paths, they eventually attained a heightened political consciousness and consequently began to adopt a sceptical or wait-and-see attitude towards the "cultural revolution," or even resisted and opposed it. Many people were assailed either more or less severely for this very reason. Such a state of affairs could not but provide openings to be exploited by opportunists, careerists and conspirators, not a few of whom were escalated to high or even key positions.

d) Practice has shown that the "cultural revolution" did not in fact constitute a revolution or social progress in any sense, nor could it possibly have done so. It was we and not the enemy at all who were thrown into disorder by the "cultural revolution." Therefore, from beginning to end, it did not turn "great disorder under heaven" into "great order under heaven," nor could it conceivably have done so. After the state power in the form of the people's democratic dictatorship was established in China, and especially after socialist transformation was basically completed and the exploiters were eliminated as classes, the socialist revolution represented a fundamental break with the past in both content and method, though its tasks remained to be completed. Of course, it was essential to take proper account of certain undesirable phenomena that undoubtedly existed in Party and state organisms and to remove them by correct measures in conformity with the Constitution, the laws and the Party Constitution. But on no account should the theories and methods of the "cultural revolution" have been applied. Under socialist conditions, there is no economic or political basis for carrying out a great political revolution in which "one class overthrows another." It decidedly could not come up with any constructive programme, but could only bring grave disorder, damage and retrogression in its train. History has shown that the "cultural revolution," initiated by a leader labouring under a misapprehension and capitalized on by counter-revolutionary cliques, led to domestic turmoil and brought catastrophe to the Party, the state and the whole people.

21. The "cultural revolution" can be divided into three stages.

a) From the initiation of the "cultural revolution" to the Ninth National Congress of the Party in April 1969. The convening of the enlarged Political Bureau meeting of the Central Committee of the Party in May 1966 and the 11th Plenary Session of the Eighth Central Committee in August of that year marked the launching of the "cultural revolution" on a full scale. These two meetings adopted the May 16 Circular and the Decision of the Central Committee of the Communist Party of China Concerning the Great Proletarian Cultural Revolution respectively. They launched an erroneous struggle against the so-called anti-Party clique of Peng Zhen, Luo Ruiqing, Lu Dingyi and Yang Shangkun and the so-called headquarters of Liu Shaoqi and Deng Xiaoping. They wrongly re-organized the central leading organs, set up the "Cultural Revolution Group Under the Central Committee of the

Chinese Communist Party" and gave it a major part of the power of the Central Committee. In fact, Comrade Mao Zedong's personal leadership characterized by "left" errors took the place of the collective leadership of Central Committee, and the cult of Comrade Mao Zedong was frenziedly pushed to an extreme. Lin Biao, Jiang Qing, Kang Sheng, Zhang Chunqiao and others, acting chiefly in the name of the "Cultural Revolution Group," exploited the situation to incite people to "overthrow everything and wage full scale civil war." Around February 1967, at various meetings, Tan Zhenlin, Chen Yi, Ye Jianying, Li Fuchun, Li Xiannian, Xu Xiangqian, Nie Rongzhen and other Political Bureau Members and leading comrades of the Military Commission of the Central Committee sharply criticized the mistakes of the "cultural revolution." This was labelled the "February adverse current," and they were attacked and repressed. Comrades Zhu De and Chen Yun were also wrongly criticized. Almost all leading Party and government departments in the different spheres and localities were stripped of their power or re-organized. The chaos was such that it was necessary to send in the People's Liberation Army to support the "left", the workers and the farmers and to institute military control and military training. It played a positive role in stabilizing the situation, but it also produced some negative consequences. The Ninth Congress of the Party legitimized the erroneous theories and practices of the "cultural revolution," and so reinforced the positions of Lin Biao, Jiang Qing, Kang Sheng and others in the Central Committee of the Party. The guidelines of the Ninth Congress were wrong ideologically, politically and organizationally.

b) From the Ninth National Congress of the Party to its 10th National Congress in August 1973. In 1970-71 the counter-revolutionary Lin Biao clique plotted to capture supreme power and attempted an armed counter-revolutionary coup d'état. Such was the outcome of the "cultural revolution" which overturned a series of fundamental Party principles. Objectively, it announced the failure of the theories and practices of the "cultural revolution." Comrades Mao Zedong and Zhou Enlai ingeniously thwarted the plotted coup. Supported by Comrade Mao Zedong, Comrade Zhou Enlai took charge of the day-to-day work of the Central Committee and things began to improve in all fields. During the criticism and repudiation of Lin Biao in 1972, he correctly proposed criticism of the ultra-left trend of thought. In fact, this was an extension of the correct proposals

put forward around February 1967 by many leading comrades of the Central Committee who had called for the correction of the errors of the "cultural revolution." Comrade Mao Zedong, however, erroneously held that the task was still to oppose the ultra-right. The 10th Congress of the Party perpetuated the "left" errors of the Ninth Congress and made Wang Hongwen a vice-chairman of the Party. Jiang Qing, Zhang Chunqiao, Yao Wenyuan and Wang Hongwen formed a gang of four inside the Political Bureau of the Central Committee, thus strengthening the influence of the counter-revolutionary Jiang Qing clique.

c) From the 10th Congress of the Party to October 1976. Early in 1974 Jiang Qing, Wang Hongwen and others launched a campaign to "criticize Lin Biao and Confucius." Jiang Qing and the others directed the spearhead at Comrade Zhou Enlai, which was different in nature from the campaign conducted in some localities and organizations where individuals involved in and incidents connected with the conspiracies of the counter-revolutionary Lin Biao clique were investigated. Comrade Mao Zedong approved the launching of the movement to "criticize Lin Biao and Confucius." When he found that Jiang Qing and the others were turning it to their advantage in order to seize power, he severely criticized them. He declared that they had formed a gang of four and pointed out that Jiang Qing harboured the wild ambition of making herself chairman of the Central Committee and "forming a cabinet" by political manipulation. In 1975, when Comrade Zhou Enlai was seriously ill, Comrade Deng Xiaoping, with the support of Comrade Mao Zedong, took charge of the day-to-day work of the Central Committee. He convened an enlarged meeting of the Military Commission of the Central Committee and several other important meetings with a view to solving problems in industry, agriculture, transport and science and technology, and began to straighten out work in many fields so that the situation took an obvious turn for the better. However, Comrade Mao Zedong could not bear to accept systematic correction of the errors of the "cultural revolution" by Comrade Deng Xiaoping and triggered the movement to "criticize Deng and counter the right deviationist trend to reverse correct verdicts," once again plunging the nation into turmoil. In January of that year, Comrade Zhou Enlai passed away. Comrade Zhou Enlai was utterly devoted to the Party and the people and stuck to his post till his dying day. He found himself in an extremely difficult situation

throughout the "cultural revolution." He always kept the general interest in mind, bore the heavy burden of office without complaint, racking his brains and untiringly endeavouring to keep the normal work of the Party and the state going, to minimize the damage caused by the "cultural revolution" and to protect many Party and non-Party cadres. He waged all forms of struggle to counter sabotage by the counter-revolutionary Lin Biao and Jiang Qing cliques. His death left the whole Party and people in the most profound grief. In April of the same year, a powerful movement of protest signalled by the Tian An Men Incident swept the whole country, a movement to mourn for the late Premier Zhou Enlai and oppose the gang of four. In essence, the movement was a demonstration of support for the Party's correct leadership as represented by Comrade Deng Xiaoping. It laid the ground for massive popular support for the subsequent overthrow of the counter-revolutionary Jiang Qing clique. The Political Bureau of the Central Committee and Comrade Mao Zedong wrongly assessed the nature of the Tian An Men Incident and dismissed Comrade Deng Xiaoping from all his posts inside and outside the Party. As soon as Comrade Mao Zedong passed away in September 1976, the counter-revolutionary Jiang Qing clique stepped up its plot to seize supreme Party and state leadership. Early in October of the same year, the Political Bureau of the Central Committee, executing the will of the Party and the people, resolutely smashed the clique and brought the catastrophic "cultural revolution" to an end. This was a great victory won by the entire Party, army and people after prolonged struggle. Hua Guofeng, Ye Jianying, Li Xiannian and other comrades played a vital part in the struggle to crush the clique.

22. Chief responsibility for the grave "left" error of the "cultural revolution," an error comprehensive in magnitude and protracted in duration, does indeed lie with Comrade Mao Zedong. But after all it was the error of a great proletarian revolutionary. Comrade Mao Zedong paid constant attention to overcoming shortcomings in the life of the Party and state. In his later years, however, far from making a correct analysis of many problems, he confused right and wrong and the people with the enemy during the "cultural revolution." While making serious mistakes, he repeatedly urged the whole Party to study the works of Marx, Engels and Lenin conscientiously and imagined that his theory and practice were Marxist and that they were essential for the consolidation of the dictatorship

of the proletariat. Herein lies his tragedy. While persisting in the comprehensive error of the "cultural revolution," he checked and rectified some of its specific mistakes, protected some leading Party cadres and non-Party public figures and enabled some leading cadres to return to important leading posts. He led the struggle to smash the counter-revolutionary Lin Biao clique. He made major criticisms and exposures of Jiang Qing, Zhang Chunqiao and others, frustrating their sinister ambition to seize supreme leadership. All this was crucial to the subsequent and relatively painless overthrow of the gang of four by our Party. In his later years, he still remained alert to safeguarding the security of our country, stood up to the pressure of the social-imperialists, pursued a correct foreign policy, firmly supported the just struggles of all peoples, outlined the correct strategy of the three worlds and advanced the important principle that China would never seek hegemony. During the "cultural revolution" our Party was not destroyed, but maintained its unity. The State Council and the People's Liberation Army were still able to do much of their essential work. The Fourth National People's Congress which was attended by deputies from all nationalities and all walks of life was convened and it determined the composition of the State Council with Comrades Zhou Enlai and Deng Xiaoping as the core of its leadership. The foundation of China's socialist system remained intact and it was possible to continue socialist economic construction. Our country remained united and exerted a significant influence on international affairs. All these important facts are inseparable from the great role played by Comrade Mao Zedong. For these reasons, and particularly for his vital contributions to the cause of the revolution over the years, the Chinese people have always regarded Comrade Mao Zedong as their respected and beloved great leader and teacher.

23. The struggle waged by the Party and the people against "left" errors and against the counter-revolutionary Lin Biao and Jiang Qing cliques during the "cultural revolution" was arduous and full of twists and turns, and it never ceased. Rigorous tests throughout the "cultural revolution" have proved that standing on the correct side in the struggle were the overwhelming majority of Members of the Eighth Central Committee of the Party and the Members it elected to its Political Bureau, Standing Committee and Secretariat. Most of our Party cadres, whether they were wrongly dismissed or remained at their posts, whether they were rehabilitated early or

late, are loyal to the Party and people and steadfast in their belief in the cause of socialism and communism. Most of the intellectuals, model workers, patriotic democrats, patriotic overseas Chinese and cadres and masses of all strata and all nationalities who had been wronged and persecuted did not waver in their love for the motherland and in their support for the Party and socialism. Party and state leaders such as Comrades Liu Shaoqi, Peng Dehuai, He Long and Tao Zhu and all other Party and non-Party comrades who were persecuted to death in the "cultural revolution" will live for ever in the memories of the Chinese people. It was through the joint struggles waged by the entire Party and the masses of workers, farmers, PLA officers and men, intellectuals, educated youth and cadres that the havoc wrought by the "cultural revolution" was somewhat mitigated. Some progress was made in our economy despite tremendous losses. Grain output increased relatively steadily. Significant achievements were scored in industry, communications and capital construction and in science and technology. New railways were built and the Changjiang River Bridge at Nanjing was completed; a number of large enterprises using advanced technology went into operation; hydrogen bomb tests were successfully undertaken and man-made satellites successfully launched and retrieved; and new hybrid strains of long-grained rice were developed and popularized. Despite the domestic turmoil, the People's Liberation Army bravely defended the security of the motherland. And new prospects were opened up in the sphere of foreign affairs. Needless to say, none of these successes can be attributed in any way to the "cultural revolution," without which we would have scored far greater achievements for our cause. Although we suffered from sabotage by the counter-revolutionary Lin Biao and Jiang Qing cliques during the "cultural revolution," we won out over them in the end. The Party, the people's political power, the people's army and Chinese society on the whole remained unchanged in nature. Once again history has proved that our people are a great people and that our Party and socialist system have enormous vitality.

24. In addition to the above-mentioned immediate cause of Comrade Mao Zedong's mistake in leadership, there are complex social and historical causes underlying the "cultural revolution" which dragged on for as long as a decade. The main causes are as follows:

a) The history of the socialist movement is not long and that of the

socialist countries even shorter. Some of the laws governing the development of socialist society are relatively clear, but many more remain to be explored. Our Party had long existed in circumstances of war and fierce class struggle. It was not fully prepared, either ideologically or in terms of scientific study, for the swift advent of the new-born socialist society and for socialist construction on a national scale. The scientific works of Marx, Engels, Lenin and Stalin are our guide to action, but can in no way provide ready-made answers to the problems we may encounter in our socialist cause. Even after the basic completion of socialist transformation, given the guiding ideology, we were liable, owing to the historical circumstances in which our Party grew, to continue to regard issues unrelated to class struggle as its manifestations when observing and handling new contradictions and problems which cropped up in the political, economic, cultural and other spheres in the course of the development of socialist society. And when confronted with actual class struggle under the new conditions, we habitually fell back on the familiar methods and experiences of the large-scale, turbulent mass struggle of the past, which should no longer have been mechanically followed. As a result, we substantially broadened the scope of class struggle. Moreover, this subjective thinking and practice divorced from reality seemed to have a "theoretical basis" in the writings of Marx, Engels, Lenin and Stalin because certain ideas and arguments set forth in them were misunderstood or dogmatically interpreted. For instance, it was thought that equal rights, which reflect the exchange of equal amounts of labour and is applicable to the distribution of the means of consumption in socialist society, or "bourgeois right" as it was designated by Marx, should be restricted and criticized, and so the principle of "to each according to his work" and that of material interest should be restricted and criticized; that small production would continue to engender capitalism and the bourgeoisie daily and hourly on a large scale even after the basic completion of socialist transformation, and so a series of "left" economic policies and policies on class struggle in urban and rural areas were formulated; and that all ideological differences inside the Party were reflections of class struggle in society, and so frequent and acute inner-Party struggles were conducted. All this led us to regard the error in magnifying class struggle as an act in defence of the purity of Marxism. Furthermore, Soviet leaders started a polemic between China and the Soviet Union, and

turned the arguments between the two Parties on matters of principle into a conflict between the two nations, bringing enormous pressure to bear upon China politically, economically and militarily. So we were forced to wage a just struggle against the big-nation chauvinism of the Soviet Union. In these circumstances, a campaign to prevent and combat revisionism inside the country was launched, which spread the error of broadening the scope of class struggle in the Party, so that normal differences among comrades inside the Party came to be regarded as manifestations of the revisionist line or of the struggle between the two lines. This resulted in growing tension in inner-Party relations. Thus it became difficult for the Party to resist certain "left" views put forward by Comrade Mao Zedong and others, and the development of these views led to the outbreak of the protracted "cultural revolution."

b) Comrade Mao Zedong's prestige reached a peak and he began to get arrogant at the very time when the Party was confronted with the new task of shifting the focus of its work to socialist construction, a task for which the utmost caution was required. He gradually divorced himself from practice and from the masses, acted more and more arbitrarily and subjectively, and increasingly put himself above the Central Committee of the Party. The result was a steady weakening and even undermining of the principle of collective leadership and democratic centralism in the political life of the Party and the country. This state of affairs took shape only gradually and the Central Committee of the Party should be held partly responsible. From the Marxist viewpoint, this complex phenomenon was the product of given historical conditions. Blaming this on only one person or on only a handful of people will not provide a deep lesson for the whole Party or enable it to find practical ways to change the situation. In the communist movement, leaders play quite an important role. This has been borne out by history time and again and leaves no room for doubt. However, certain grievous deviations, which occurred in the history of the international communist movement owing to the failure to handle the relationship between the Party and its leader correctly, had an adverse effect on our Party, too. Feudalism in China has had a very long history. Our Party fought in the firmest and most thoroughgoing way against it, and particularly against the feudal system of land ownership and the landlords and local tyrants, and fostered a fine tradition of democracy in the anti-feudal struggle. But it remains difficult to

eliminate the evil ideological and political influence of centuries of feudal autocracy. And for various historical reasons, we failed to institutionalize and legalize inner-Party democracy and democracy in the political and social life of the country, or we drew up the relevant laws but they lacked due authority. This meant that conditions were present for the overconcentration of Party power in individuals and for the development of arbitrary individual rule and the personality cult in the Party. Thus, it was hard for the Party and state to prevent the initiation of the "cultural revolution" or check its development.

A Great Turning Point in History

25. The victory won in overthrowing the counter-revolutionary Jiang Qing clique in October 1976 saved the Party and the revolution from disaster and enabled our country to enter a new historical period of development. In the two years from October 1976 to December 1978 when the Third Plenary Session of the 11th Central Committee of the Party was convened, large numbers of cadres and other people most enthusiastically devoted themselves to all kinds of revolutionary work and the task of construction. Notable results were achieved in exposing and repudiating the crimes of the counter-revolutionary Jiang Qing clique and uncovering their factional setup. The consolidation of Party and state organizations and the redress of wrongs suffered by those who were unjustly, falsely and wrongly charged began in some places. Industrial and agricultural production was fairly swiftly restored. Work in education, science and culture began to return to normal. Comrades inside and outside the Party demanded more and more strongly that the errors of the "cultural revolution" be corrected, but such demands met with serious resistance. This, of course, was partly due to the fact that the political and ideological confusion created in the decade-long "cultural revolution" could not be eliminated overnight, but it was also due to the "left" errors in the guiding ideology that Comrade Hua Guofeng continued to commit in his capacity as Chairman of the Central Committee of the Chinese Communist Party. On the proposal of Comrade Mao Zedong, Comrade Hua Guofeng had become First Vice-Chairman of the Central Committee of the Party and concurrently Premier of the State

Council during the "movement to criticize Deng Xiaoping" in 1976. He contributed to the struggle to overthrow the counter-revolutionary Jiang Qing clique and did useful work after that. But he promoted the erroneous "two-whatever's" policy, that is, "we firmly uphold whatever policy decisions Chairman Mao made, and we unswervingly adhere to whatever instructions Chairman Mao gave," and he took a long time to rectify the error. He tried to suppress the discussions on the criterion of truth unfolded in the country in 1978, which were very significant in setting things right. He procrastinated and obstructed the work of reinstating veteran cadres in their posts and redressing the injustices left over from the past (including the case of the "Tian An Men Incident" of 1976). He accepted and fostered the personality cult around himself while continuing the personality cult of the past. The 11th National Congress of the Chinese Communist Party convened in August 1977 played a positive role in exposing and repudiating the gang of four and mobilizing the whole Party for building China into a powerful modern socialist state. However, owing to the limitations imposed by the historical conditions then and the influence of Comrade Hua Guofeng's mistakes, it reaffirmed the erroneous theories, policies and slogans of the "cultural revolution" instead of correcting them. He also had his share of responsibility for impetuously seeking quick results in economic work and for continuing certain other "left" policies. Obviously, under his leadership it is impossible to correct "left" errors within the Party, and all the more impossible to restore the Party's fine traditions.

26. The Third Plenary Session of the 11th Central Committee in December 1978 marked a crucial turning point of far-reaching significance in the history of our Party since the birth of the People's Republic. It put an end to the situation in which the Party had been advancing haltingly in its work since October 1976 and began to correct conscientiously and comprehensively the "left" errors of the "cultural revolution" and earlier. The plenary session resolutely criticized the erroneous "two-whatever's" policy and fully affirmed the need to grasp Mao Zedong Thought comprehensively and accurately as a scientific system. It highly evaluated the forum on the criterion of truth and decided on the guiding principle of emancipating the mind, using our brains, seeking truth from facts and uniting as one in looking forward to the future. It firmly discarded the slogan "Take class struggle as the key link," which had become unsuitable in

a socialist society, and made the strategic decision to shift the focus of work to socialist modernization. It declared that attention should be paid to solving the problem of serious imbalances between the major branches of the economy and drafted decisions on the acceleration of agricultural development. It stressed the task of strengthening socialist democracy and the socialist legal system. It examined and redressed a number of major unjust, false and wrong cases in the history of the Party and settled the controversy on the merits and demerits, the rights and wrongs, of some prominent leaders. The plenary session also elected additional members to the Party's central leading organs. These momentous changes in the work of leadership signified that the Party re-established the correct line of Marxism ideologically, politically and organizationally. Since then, it has gained the initiative in setting things right and has been able to solve step by step many problems left over since the founding of the People's Republic and the new problems cropping up in the course of practice and carry out the heavy tasks of construction and reform, so that things are going very well in both the economic and political sphere.

a) In response to the call of the Third Plenary Session of the 11th Central Committee of the Party for emancipating the mind and seeking truth from facts, large numbers of cadres and other people have freed themselves from the spiritual shackles of the personality cult and the dogmatism that prevailed in the past. This has stimulated thinking inside and outside the Party, giving rise to a lively situation where people try their best to study new things and seek solutions to new problems. To carry out the principle of emancipating the mind properly, the Party reiterated in good time the four fundamental principles of upholding the socialist road, the people's democratic dictatorship (i.e., the dictatorship of the proletariat), the leadership of the Communist Party, and Marxism-Leninism and Mao Zedong Thought. It reaffirmed the principle that neither democracy nor centralism can be practised at each other's expense and pointed out the basic fact that, although the exploiters had been eliminated as classes, class struggle continues to exist within certain limits. In his speech at the meeting in celebration of the 30th anniversary of the founding of the People's Republic of China, which was approved by the Fourth Plenary Session of the 11th Central Committee of the Party, Comrade Ye Jianying fully affirmed the gigantic achievements of the Party and people since the inauguration of

the People's Republic while making self-criticism on behalf of the Party for errors in its work and outlined our country's bright prospects. This helped to unify the thinking of the whole Party and people. At its meeting in August 1980, the Political Bureau of the Central Committee set the historic task of combating corrosion by bourgeois ideology and eradicating the evil influence of feudalism in the political and ideological fields which is still present. A work conference convened by the Central Committee in December of the same year resolved to strengthen the Party's ideological and political work, make greater efforts to build a socialist civilization, criticize the erroneous ideological trends running counter to the four fundamental principles and strike at the counter-revolutionary activities disrupting the cause of socialism. This exerted a most salutary countrywide influence in fostering a political situation characterized by stability, unity and liveliness.

b) At a work conference called by the Central Committee in April 1979, the Party formulated the principle of "readjusting, restructuring, consolidating and improving" the economy as a whole in a decisive effort to correct the shortcomings and mistakes of the previous two years in our economic work and eliminate the influence of "left" errors that had persisted in this field. The Party indicated that economic construction must be carried out in the light of China's conditions and in conformity with economic and natural laws; that it must be carried out within the limits of our own resources, step by step, after due deliberation and with emphasis on practical results, so that the development of production will be closely connected with the improvement of the people's livelihood; and that active efforts must be made to promote economic and technical co-operation with other countries on the basis of independence and self-reliance. Guided by these principles, light industry has quickened its rate of growth and the structure of industry is becoming more rational and better co-ordinated. Reforms in the system of economic management, including extension of the decision-making powers of enterprises, restoration of the workers' congresses, strengthening of democratic management of enterprises and transference of financial management responsibilities to the various levels, have gradually been carried out in conjunction with economic readjustment. The Party has worked conscientiously to remedy the errors in rural work since the later stage of the movement for agricultural co-operation, with the result that the

purchase prices of farm and sideline products have been raised, various forms of production responsibility introduced whereby remuneration is determined by farm output, family plots have been restored and appropriately extended, village fairs have been revived, and sideline occupations and diverse undertakings have been developed. All these have greatly enhanced the farmers' enthusiasm. Grain output in the last two years reached an all-time high, and at the same time industrial crops and other farm and sideline products registered a big increase. Thanks to the development of agriculture and the economy as a whole, the living standards of the people have improved.

c) After detailed and careful investigation and study, measures were taken to clear the name of Comrade Liu Shaoqi, former Vice-Chairman of the Central Committee of the Communist Party of China and Chairman of the People's Republic of China, those of other Party and state leaders, national minority leaders and leading figures in different circles who had been wronged, and to affirm their historical contributions to the Party and the people in protracted revolutionary struggle.

d) Large numbers of unjust, false and wrong cases were re-examined and their verdicts reversed. Cases in which people had been wrongly labelled bourgeois rightists were also corrected. Announcements were made to the effect that former businessmen and industrialists, having undergone remoulding, are now working people; that small trades people, pedlars and handicraftsmen, who were originally labourers, have been differentiated from businessmen and industrialists who were members of the bourgeoisie; and that the status of the vast majority of former landlords and rich farmers who have become working people through remoulding, has been redefined. These measures have appropriately resolved many contradictions inside the Party and among the people.

e) People's congresses at all levels are doing their work better and those at the provincial and county levels have set up permanent organs of their own. The system according to which deputies to the people's congresses at and below the county level are directly elected by the voters is now universally practised. Collective leadership and democratic centralism are being perfected in the Party and state organizations. The powers of local and primary organizations are steadily being extended. The so-called right to "speak out, air views and hold debates in a big way and write big-character

posters," which actually obstructs the promotion of socialist democracy, was deleted from the Constitution. A number of important laws, decrees and regulations have been reinstated, enacted or enforced, including the Criminal Law and the Law of Criminal Procedure which had never been drawn up since the founding of the People's Republic. The work of the judicial, procuratorial and public security departments has improved and telling blows have been dealt at all types of criminals guilty of serious offences. The 10 principal members of the counter-revolutionary Lin Biao and Jiang Qing cliques were publicly tried according to law.

f) The Party has striven to readjust and strengthen the leading bodies at all levels. The Fifth Plenary Session of the 11th Central Committee of the Party, held in February 1980, elected additional members to the Standing Committee of its Political Bureau and re-established the Secretariat of the Central Committee, greatly strengthening the central leadership. Party militancy has been enhanced as a result of the establishment of the Central Commission for Inspecting Discipline and of discipline inspection commissions at the lower levels, the formulation of the Guiding Principles for Inner Party Political Life and other related inner-Party regulations, and the effort made by leading Party organizations and discipline inspection bodies at the different levels to rectify unhealthy practices. The Party's mass media have also contributed immensely in this respect. The Party has decided to put an end to the virtually life-long tenure of leading cadres, change the overconcentration of power and, on the basis of revolutionization, gradually reduce the average age of the leading cadres at all level and raise their levels of education and professional competence, and has initiated this process. With the reshuffling of the leading personnel of the State Council and the division of labour between Party and government organizations, the work of the central and local governments has improved.

In addition, there have been significant successes in the Party's efforts to implement our policies in education, science, culture, public health, physical culture, nationality affairs, united front work, overseas Chinese affairs and military and foreign affairs.

In short, the scientific principles of Mao Zedong Thought and the correct policies of the Party have been revived and developed under new conditions and all aspects of Party and government work have been flourishing again since the Third Plenary Session of the 11th Central

Committee. Our work still suffers from shortcomings and mistakes, and we are still confronted with numerous difficulties. Nevertheless, the road of victorious advance is open, and the Party's prestige among the people is rising day by day.

Comrade Mao Zedong's Historical Role and Mao Zedong Thought

27. Comrade Mao Zedong was a great Marxist and a great proletarian revolutionary, strategist and theorist. It is true that he made gross mistakes during the "cultural revolution," but, if we judge his activities as a whole, his contributions to the Chinese revolution far outweigh his mistakes. His merits are primary and his errors secondary. He rendered indelible meritorious service in founding and building up our Party and the Chinese People's Liberation Army, in winning victory for the cause of liberation of the Chinese people, in founding the People's Republic of China and in advancing our socialist cause. He made major contributions to the liberation of the oppressed nations of the world and to the progress of mankind.

28. The Chinese Communists, with Comrade Mao Zedong as their chief representative, made a theoretical synthesis of China's unique experience in its protracted revolution in accordance with the basic principles of Marxism-Leninism. This synthesis constituted a scientific system of guidelines benefitting China's conditions, and it is this synthesis which is Mao Zedong Thought, the product of the integration of the universal principles of Marxism-Leninism with the concrete practice of the Chinese revolution. Making revolution in a large Eastern semi-colonial, semi-feudal country is bound to meet with many special, complicated problems, which cannot be solved by reciting the general principles of Marxism-Leninism or by copying foreign experience in every detail. The erroneous tendency of making Marxism a dogma and deifying Comintern resolutions and the experience of the Soviet Union prevailed in the international communist movement and in our Party mainly in the late 1920s and early 1930s, and this tendency pushed the Chinese revolution to the brink of total failure. It was in the course of combating this wrong tendency and making a profound summary of our historical experience in this respect that Mao Zedong Thought took shape and developed. It was systematized

and extended in a variety of fields and reached maturity in the latter part of the Agrarian Revolutionary War and the War of Resistance Against Japan, and it was further developed during the War of Liberation and after the founding of the People's Republic of China. Mao Zedong Thought is Marxism-Leninism applied and developed in China, it constitutes a correct theory, a body of correct principles and a summary of the experiences that have been confirmed in the practice of the Chinese revolution, a crystallization of the collective wisdom of the Chinese Communist Party. Many outstanding leaders of our Party made important contributions to the formation and development of Mao Zedong Thought, and they are synthesized in the scientific works of Comrade Mao Zedong.

29. Mao Zedong Thought is wide-ranging in content. It is an original theory which has enriched and developed Marxism-Leninism in the following respects:

a) On the new-democratic revolution. Proceeding from China's historical and social conditions, Comrade Mao Zedong made a profound study of the characteristics and laws of the Chinese revolution, applied and developed the Marxist-Leninist thesis of the leadership of the proletariat in the democratic revolution, and established the theory of new-democratic revolution—a revolution against imperialism, feudalism and bureaucrat-capitalism waged by the masses of the people on the basis of the worker-peasant alliance under the leadership of the proletariat. His main works on this subject include: *Analysis of the Classes in Chinese Society*, *Report on an Investigation of the Peasant Movement in Hunan*, *A Single Spark Can Start a Prairie Fire*, *Introducing "The Communist"*, *On New Democracy*, *On Coalition Government* and *The Present Situation and Our Tasks*. The basic points of this theory are:

1) China's bourgeoisie consisted of two sections, the big bourgeoisie (that is, the comprador bourgeoisie, or the bureaucrat-bourgeoisie) which was dependent on imperialism, and the national bourgeoisie which had revolutionary leanings but wavered. The proletariat should endeavour to get the national bourgeoisie to join in the united front under its leadership and in special circumstances to include even part of the big bourgeoisie in the united front, so as to isolate the main enemy to the greatest possible extent. When forming a united front with the bourgeoisie, the proletariat must preserve its own independence and pursue the policy of "unity, struggle, unity through

struggle"; when forced to split with the bourgeoisie, chiefly the big bourgeoisie, it should have the courage and ability to wage a resolute armed struggle against the big bourgeoisie, while continuing to win the sympathy of the national bourgeoisie or keep it neutral.

2) Since there was no bourgeois democracy in China and the reactionary ruling classes enforced their terroristic dictatorship over the people by armed force, the revolution could not but essentially take the form of protracted armed struggle. China's armed struggle was a revolutionary war led by the proletariat with the peasants as the principal force. The peasantry was the most reliable ally of the proletariat. Through its vanguard, it was possible and necessary for the proletariat, with its progressive ideology and its sense of organization and discipline, to raise the political consciousness of the peasant masses, establish rural base areas, wage a protracted revolutionary war and build up and expand the revolutionary forces.

Comrade Mao Zedong pointed out that "the united front and armed struggle are the two basic weapons for defeating the enemy." Together with Party building, they constituted the "three magic weapons" of the revolution. They were the essential basis which enabled the Chinese Communist Party to become the core of leadership of the whole nation and to chart the course of encircling the cities from the countryside and finally winning countrywide victory.

b) On the socialist revolution and socialist construction. On the basis of the economic and political conditions for the transition to socialism ensuing on victory in the new-democratic revolution, Comrade Mao Zedong and the Chinese Communist Party followed the path of effecting socialist industrialization simultaneously with socialist transformation and adopted concrete policies for the gradual transformation of the private ownership of the means of production, thereby providing a theoretical as well as practical solution of the difficult task of building socialism in a large country such as China, a country which was economically and culturally backward, with a population accounting for nearly one-fourth of the world's total. By putting forward the thesis that the combination of democracy for the people and dictatorship over the reactionaries constitutes the people's democratic dictatorship, Comrade Mao Zedong enriched the Marxist-Leninist theory of the dictatorship of the proletariat. After the establishment

of the socialist system, Comrade Mao Zedong pointed out that, under socialism, the people had the same fundamental interests, but that all kinds of contradictions still existed among them, and that contradictions between the enemy and the people and contradictions among the people should be strictly distinguished from each other and correctly handled. He proposed that among the people we should follow a set of correct policies. We should follow the policy of "unity—criticism—unity" in political matters, the policy of "long-term coexistence and mutual supervision" in the Party's relations with the democratic parties, the policy of "let a hundred flowers blossom, let a hundred schools of thought contend" in science and culture, and, in the economic sphere the policy of overall arrangement with regard to the different strata in town and country and of consideration for the interests of the state, the collective and the individual, all three. He repeatedly stressed that we should not mechanically transplant the experience of foreign countries, but should find our own way to industrialization, a way suited to China's condition, by proceeding from the fact that China is a large agricultural country, taking agriculture as the foundation of the economy, correctly handling the relationship between heavy industry on the one hand and agriculture and light industry on the other and attaching due importance to the development of the latter. He stressed that in socialist construction we should properly handle the relationships between economic construction and building up defence, between large-scale enterprises and small and medium-scale enterprises, between the Han nationality and the minority nationalities, between the coastal regions and the interior, between the central and the local authorities, and between self-reliance and learning from foreign countries, and that we should properly handle the relationship between accumulation and consumption and pay attention to overall balance. Moreover, he stressed that the workers were the masters of their enterprises and that cadres must take part in physical labour and workers in management, that irrational rules and regulations must be reformed and that the three-in-one combination of technical personnel, workers and cadres must be effected. And he formulated the strategic idea of bringing all positive factors into play and turning negative factors into positive ones so as to unite the whole Chinese people and build a powerful socialist country. The important ideas of Comrade Mao Zedong concerning the socialist revolution and socialist construction are mainly contained in such major

works as *Report to the Second Plenary Session of the Seventh Central Committee of the Communist Party of China, On the People's Democratic Dictatorship, On the Ten Major Relationships, On the Correct Handling of Contradictions Among the People and Talk at an Enlarged Work Conference Convened by the Central Committee of the Communist Party of China.*

c) On the building of the revolutionary army and military strategy. Comrade Mao Zedong methodically solved the problem of how to turn a revolutionary army chiefly made up of peasants into a new type of people's army which is proletarian in character, observes strict discipline and forms close ties with the masses. He laid it down that the sole purpose of the people's army is to serve the people wholeheartedly, he put forward the principle that the Party commands the gun and not the other way round, he advanced the Three Main Rules of Discipline and the Eight Points for Attention and stressed the practice of political, economic and military democracy and the principles of the unity of officers and soldiers, the unity of army and people and the disintegration of the enemy forces, thus formulating by way of summation a set of policies and methods concerning political work in the army. In his military writings such as *On Correcting Mistaken Ideas in the Party, Problems of Strategy in China's Revolutionary War, Problems of Strategy in Guerrilla War Against Japan, On Protracted War and Problems of War and Strategy*, Comrade Mao Zedong summed up the experience of China's protracted revolutionary war and advanced the comprehensive concept of building a people's army and of building rural base areas and waging people's war by employing the people's army as the main force and relying on the masses. Raising guerrilla war to the strategic plan, he maintained that guerrilla warfare and mobile warfare of a guerrilla character would for a long time be the main forms of operation in China's revolutionary war. He explained that it would be necessary to effect an appropriate change in military strategy simultaneously with the changing balance of forces between the enemy and ourselves and with the progress of the war. He worked out a set of strategies and tactics for the revolutionary army to wage people's war in conditions when the enemy was strong and we were weak. These strategies and tactics include fighting a protracted war strategically and campaigns and battles of quick decision, turning strategic inferiority into superiority in campaigns and battles and concentrating a superior force to destroy the enemy forces one by one. During the War of

Liberation, he formulated the celebrated 10 major principles of operation. All these ideas constitute Comrade Mao Zedong's outstanding contribution to the military theory of Marxism-Leninism. After the founding of the People's Republic, he put forward the important guideline that we must strengthen our national defence and build modern revolutionary armed forces (including the navy, the air force and technical branches) and develop modern defence technology (including the making of nuclear weapons for self-defence).

d) On policy and tactics. Comrade Mao Zedong elucidated the vital importance of policy and tactics in revolutionary struggles. He pointed out that policy and tactics were the life of the Party, that they were both the starting-point and the end-result of all the practical activities of a revolutionary party and that the Party must formulate its policies in the light of the existing political situation, class relations, actual circumstances and the changes in them, combining principle and flexibility. He made many valuable suggestions concerning policy and tactics in the struggle against the enemy, in the united front and other questions. He pointed out among other things:

that, under changing subjective and objective conditions, a weak revolutionary force could ultimately defeat a strong reactionary force;

that we should despise the enemy strategically and take the enemy seriously tactically;

that we should keep our eyes on the main target of struggle and not hit out in all directions;

that we should differentiate between and disintegrate our enemies, and adopt the tactic of making use of contradictions, winning over the many, opposing the few and crushing our enemies one by one;

that, in areas under reactionary rule, we should combine legal and illegal struggle and, organizationally, adopt the policy of assigning picked cadres to work under-ground;

that, as for members of the defeated reactionary classes and reactionary elements, we should give them a chance to earn a living and to become working people living by their own labour, so long as they did not rebel or create trouble; and

that the proletariat and its party must fulfil two conditions in

order to exercise leadership over their allies: (1) Lead their followers in waging resolute struggles against the common enemy and achieving victories; (2) Bring material benefits to their followers or at least avoid damaging their interests and at the same time give them political education.

These ideas of Comrade Mao Zedong's concerning policy and tactics are embodied in many of his writings, particularly in such works as *Current Problems of Tactics in the Anti-Japanese United Front*, *On Policy*, *Conclusions on the Repulse of the Second Anti-Communist Onslaught*, *On Some Important Problems of the Party's Present Policy*, *Don't Hit Out in All Directions* and *On the Question of Whether Imperialism and All Reactionaries Are Real Tigers*.

e) On ideological and political work and cultural work. In his *On New Democracy*, Comrade Mao Zedong stated:

Any given culture (as an ideological form) is a reflection of the politics and economics of a given society, and the former in turn has a tremendous influence and effect upon the latter; economics is the base and politics the concentrated expression of economics.

In accordance with this basic view, he put forward many important ideas of far-reaching and long-term significance. For instance, the theses that ideological and political work is the life-blood of economic and all other work and that it is necessary to unite politics and economics and to unite politics and professional skills, and to be both red and expert; the policy of developing a national, scientific and mass culture and of letting a hundred flowers blossom, weeding through the old to bring forth the new, and making the past serve the present and foreign things serve China; and the thesis that intellectuals have an important role to play in revolution and construction, that intellectuals should identify themselves with the workers and farmers and that they should acquire the proletarian world outlook by studying Marxism-Leninism, by studying society and through practical work. He pointed out that "this question of 'for whom?' is fundamental; it is a question of principle" and stressed that we should serve the people wholeheartedly, be highly responsible in revolutionary work, wage arduous struggle and fear no sacrifice. Many notable works written by Comrade Mao Zedong on ideology, politics and culture, such as *The Orientation of the Youth*

Movement, Recruit Large Numbers of Intellectuals, Talks at the Yenan Forum of Literature and Art, In Memory of Norman Bethune, Serve the People and The Foolish Old Man Who Removed the Mountains, are of tremendous significance even today.

f) On Party building. It was a most difficult task to build a Marxist, proletarian Party of a mass character in a country where the peasantry and other sections of the petty bourgeoisie constituted the majority of the population, while the proletariat was small in number yet strong in combat effectiveness. Comrade Mao Zedong's theory on Party building provided a successful solution to this question. His main works in this area include *Combat Liberalism, The Role of the Chinese Communist Party in the National War, Reform Our Study, Rectify the Party's Style of Work, Oppose Stereotyped Party Writing, Our Study and the Current Situation, On Strengthening the Party Committee System and Methods of Work of Party Committees*. He laid particular stress on building the Party ideologically, saying that a Party member should join the Party not only organizationally but also ideologically and should constantly try to reform his non-proletarian ideas and replace them with proletarian ideas. He indicated that the style of work which entailed integrating theory with practice, forging close links with the masses and practising self-criticism was the hallmark distinguishing the Chinese Communist Party from all other political parties in China. To counter the erroneous "left" policy of "ruthless struggle and merciless blows" once followed in inner-Party struggle, he proposed the correct policy of "learning from past mistakes to avoid future ones and curing the sickness to save the patient," emphasizing the need to achieve the objective of clarity in ideology and unity among comrades in inner-Party struggle. He initiated the rectification campaign as a form of ideological education in Marxism-Leninism throughout the Party, which applied the method of criticism and self-criticism. In view of the fact that our Party was about to become and then became a party in power leading the whole country, Comrade Mao Zedong urged time and again, first on the eve of the founding of the People's Republic and then later, that we should remain modest and prudent, guard against arrogance and rashness and keep to plain living and hard struggle in our style of work and that we should be on the lookout against the corrosive influence of bourgeois ideology and should oppose bureaucratism which would alienate us from the masses.

30. The living soul of Mao Zedong Thought is the stand, viewpoint and method embodied in its component parts mentioned above. This stand, viewpoint and method boil down to three basic points: to seek truth from facts, the mass line, and independence. Comrade Mao Zedong applied dialectical and historical materialism to the entire work of the proletarian party, giving shape to this stand, viewpoint and method so characteristic of Chinese Communists in the course of the Chinese revolution and its arduous, protracted struggles and thus enriching Marxism-Leninism. They find expression not only in such important works as *Oppose Book Worship, On Practice, On Contradiction, Preface and Postscript to "Rural Surveys," Some Questions Concerning Methods of Leadership* and *Where Do Correct Ideas Come From?*, but also in all his scientific writings and in the revolutionary activities of the Chinese Communists.

a) Seeking truth from facts. This means proceeding from reality and combining theory with practice, that is, integrating the universal principles of Marxism-Leninism with the concrete practice of the Chinese revolution. Comrade Mao Zedong was always against studying Marxism in isolation from the realities of Chinese society and the Chinese revolution. As early as 1930, he opposed blind book worship by emphasizing that investigation and study is the first step in all work and that one has no right to speak without investigation. On the eve of the rectification movement in Yanan, he affirmed that subjectivism is a formidable enemy of the Communist Party, a manifestation of impurity in Party spirit. These brilliant theses helped people break through the shackles of dogmatism and greatly emancipate their minds. While summarizing the experience and lessons of the Chinese revolution in his philosophical works and many other works rich in philosophical content, Comrade Mao Zedong showed great profundity in expounding and enriching the Marxist theory of knowledge and dialectics. He stressed that the dialectical materialist theory of knowledge is the dynamic, revolutionary theory of reflection and that full scope should be given to man's conscious dynamic role which is based on and is in conformity with objective reality. Basing himself on social practice, he comprehensively and systematically elaborated the dialectical materialist theory on the sources, the process and the purpose of knowledge and on the criterion of truth. He said that as a rule, correct knowledge could be arrived at and developed only after many repetitions of the process leading from

matter to consciousness and then back to matter, that is, leading from practice to knowledge and then back to practice. He pointed out that truth exists by contrast with falsehood and grows in struggle with it, that truth is inexhaustible and that the truth of any piece of knowledge, namely, whether it corresponds to objective reality, can ultimately be decided only through social practice. He further elaborated the law of the unity of opposites, the nucleus of Marxist dialectics. He indicated that we should not only study the universality of contradiction in objective existence, but, what is more important, we should study the particularity of contradiction, and that we should resolve contradictions which are different in nature by different methods. Therefore, dialectics should not be viewed as a formula to be learnt by rote and applied mechanically, but should be closely linked with practice and with investigation and study and should be applied flexibly. He forged philosophy into a sharp weapon in the hands of the proletariat and the people for knowing and changing the world. His distinguished works on China's revolutionary war, in particular, provide outstandingly shining examples of applying and developing the Marxist theory of knowledge and dialectics in practice. Our Party must always adhere to the above ideological line formulated by Comrade Mao Zedong.

b) The mass line means everything for the masses, reliance on the masses in everything and "from the masses, to the masses." The Party's mass line in all its work has come into being through the systematic application in all its activities of the Marxist-Leninist principle that the people are the makers of history. It is a summation of our Party's invaluable historical experience in conducting revolutionary activities over the years under difficult circumstances in which the enemy's strength far outstripped ours. Comrade Mao Zedong stressed time and again that as long as we rely on the people, believe firmly in the inexhaustible creative power of the masses and hence trust and identify ourselves with them, no enemy can crush us while we can eventually crush every enemy and overcome every difficulty. He also pointed out that in leading the masses in all practical work, the leadership can form its correct ideas only by adopting the method of "from the masses, to the masses" and by combining the leadership with the masses and combining the general call with particular guidance. This means concentrating the ideas of the masses and turning them into systematic ideas, then going to the masses so that the ideas are persevered in and carried through, and testing

the correctness of these ideas in the practice of the masses. And this process goes on, over and over again, so that the understanding of the leadership becomes more correct, keener and richer each time. This is how Comrade Mao Zedong united the Marxist theory of knowledge with the Party's mass line. As the vanguard of the proletariat, the Party exists and fights for the interests of the people. But it always constitutes only a small part of the people, so that isolation from the people will render all the Party's struggles and ideals devoid of content as well as impossible of success. To persevere in the revolution and advance the socialist cause, our Party must uphold the mass line.

c) Independence and self-reliance are the inevitable corollary of carrying out the Chinese revolution and construction by proceeding from Chinese reality and relying on the masses. The proletarian revolution is an internationalist cause which calls for the mutual support of the proletariats of different countries. But for the cause to triumph, each proletariat should primarily base itself on its own country's realities, rely on the efforts of its own masses and revolutionary forces, integrate the universal principles of Marxism-Leninism with the concrete practice of its own revolution and thus achieve victory. Comrade Mao Zedong always stressed that our policy should rest on our own strength and that we should find our own road of advance in accordance with our own conditions. In a vast country like China, we must all the more rely mainly on our own efforts to promote the revolution and construction. We must be determined to carry the struggle through to the end and must have faith in the hundreds of millions of Chinese people and rely on their wisdom and strength; otherwise, it will be impossible for our revolution and construction to succeed or to be consolidated even if success is won. Of course, China's revolution and national construction are not and cannot be carried on in isolation from the rest of the world. It is always necessary for us to try to win foreign aid and, in particular, to learn all that is advanced and beneficial from other countries. The closed-door policy, blind opposition to everything foreign and any theory or practice of great-nation chauvinism are all entirely wrong. At the same time, although China is still comparatively backward economically and culturally, we must maintain our own national dignity and confidence and there must be no slavishness or submissiveness in any form in dealing with big, powerful or rich countries. Under the leadership of the Party and

Comrade Mao Zedong, no matter what difficulty we encountered, we never wavered, whether before or after the founding of New China, in our determination to remain independent and self-reliant and we never submitted to any pressure from outside; we showed the dauntless and heroic spirit of the Chinese Communist Party and the Chinese people. We stand for the peaceful coexistence of the people of all countries and their mutual assistance on an equal footing. While upholding our own independence, we respect other people's right to independence. The road of revolution and construction suited to the characteristics of a country has to be explored, decided on and blazed by its own people. No one has the right to impose his views on others. Only under these conditions can there be genuine internationalism. Otherwise, there can only be hegemonism. We will always adhere to this principled stand in our international relations.

31. Mao Zedong Thought is the valuable spiritual asset of our Party. It will be our guide to action for a long time to come. The Party leaders and the large group of cadres nurtured by Marxism-Leninism and Mao Zedong Thought were the backbone forces in winning great victories for our cause; they are and will remain our treasured mainstay in the cause of socialist modernization. While many of Comrade Mao Zedong's important works were written during the periods of new-democratic revolution and of socialist transformation, we must still constantly study them. This is not only because one cannot cut the past off from the present and failure to understand the past will hamper our understanding of present-day problems, but also because many of the basic theories, principles and scientific approaches set forth in these works are of universal significance and provide us with invaluable guidance now and will continue to do so in the future. Therefore, we must continue to uphold Mao Zedong Thought, study it in earnest and apply its stand, viewpoint and method in studying the new situation and solving the new problems arising in the course of practice. Mao Zedong Thought has added much that is new to the treasure-house of Marxist-Leninist theory. We must combine our study of the scientific works of Comrade Mao Zedong with that of the scientific writings of Marx, Engels, Lenin and Stalin. It is entirely wrong to try to negate the scientific value of Mao Zedong Thought and to deny its guiding role in our revolution and construction just because Comrade Mao Zedong made mistakes in his later years. And it is likewise entirely wrong to adopt a dogmatic attitude

towards the sayings of Comrade Mao Zedong to regard whatever he said as the immutable truth which must be mechanically applied everywhere, and to be unwilling to admit honestly that he made mistakes in his later years, and even try to stick to them in our new activities. Both these attitudes fail to make a distinction between Mao Zedong Thought - a scientific theory formed and tested over a long period of time - and the mistakes Comrade Mao Zedong made in his later years. And it is absolutely necessary that this distinction should be made. We must treasure all the positive experience obtained in the course of integrating the universal principles of Marxism-Leninism with the concrete practice of China's revolution and construction over 50 years or so, apply and carry forward this experience in our new work, enrich and develop Party theory with new principles and new conclusions corresponding to reality, so as to ensure the continued progress of our cause along the scientific course of Marxism-Leninism and Mao Zedong Thought.

Unite and Strive to Build a Powerful, Modern Socialist China

32. The objective of our Party's struggle in the new historical period is to turn China step by step into a powerful socialist country with modern agriculture, industry, national defence and science and technology and with a high level of democracy and culture. We must also accomplish the great cause of reunification of the country by getting Taiwan to return to the embrace of the motherland. The fundamental aim of summing up the historical experience of the 32 years since the founding of the People's Republic is to accomplish the great objective of building a powerful and modern socialist country by further rallying the will and strength of the whole Party, the whole army and the whole people on the basis of upholding the four fundamental principles, namely, upholding the socialist road, the people's democratic dictatorship (i.e., the dictatorship of the proletariat), the leadership of the Communist Party, and Marxism-Leninism and Mao Zedong Thought. These four principles constitute the common political basis of the unity of the whole Party and the unity of the whole people as well as the basic guarantee for the realization of socialist modernization. Any word or deed which deviates from these four principles is wrong. Any word or deed which denies or undermines these four principles cannot be tolerated.

33. Socialism and socialism alone can save China. This is the unalterable conclusion drawn by all our people from their own experience over the past century or so; it likewise constitutes our fundamental historical experience in the 32 years since the founding of our People's Republic. Although our socialist system is still in its early phase of development, China has undoubtedly established a socialist system and entered the stage of socialist society. Any view denying this basic fact is wrong. Under socialism, we have achieved successes which were absolutely impossible in old China. This is a preliminary and at the same time convincing manifestation of the superiority of the socialist system. The fact that we have been and are able to overcome all kinds of difficulties through our own efforts testifies to its great vitality. Of course, our system will have to undergo a long process of development before it can be perfected. Given the premise that we uphold the basic system of socialism, therefore, we must strive to reform those specific features which are not in keeping with the expansion of the productive forces and the interests of the people, and to staunchly combat all activities detrimental to socialism. With the development of our cause, the immense superiority of socialism will become more and more apparent.

34. Without the Chinese Communist Party, there would have been no New China. Likewise, without the Chinese Communist Party, there would be no modern socialist China. The Chinese Communist Party is a proletarian party armed with Marxism-Leninism and Mao Zedong Thought and imbued with a strict sense of discipline and the spirit of self-criticism, and its ultimate historical mission is to realize communism. Without the leadership of such a party, without the flesh-and-blood ties it has formed with the masses through protracted struggles and without its painstaking and effective work among the people and the high prestige it consequently enjoys, our country — for a variety of reasons, both internal and external — would inexorably fall apart and the future of our nation and people would inexorably be forfeited. The Party leadership cannot be exempt from mistakes, but there is no doubt that it can correct them by relying on the close unity between the Party and the people, and in no case should one use the Party's mistakes as a pretext for weakening, breaking away from or even sabotaging its leadership. That would only lead to even greater mistakes and court grievous disasters. We must improve Party leadership in order to uphold it. We must resolutely overcome the many shortcomings that still

exist in our Party's style of thinking and work, in its system of organization and leadership and in its contacts with the masses. So long as we earnestly uphold and constantly improve Party leadership, our Party will definitely be better able to undertake the tremendous tasks entrusted to it by history.

35. Since the Third Plenary Session of its 11th Central Committee, our Party has gradually mapped out the correct path for socialist modernization suited to China's conditions. In the course of practice, the path will be broadened and become more clearly defined, but, in essence, the key pointers can already be determined on the basis of the summing up of the negative as well as positive experiences since the founding of the People's Republic, and particularly of the lessons of the "cultural revolution."

a) After socialist transformation was fundamentally completed, the principal contradiction our country has had to resolve is that between the growing material and cultural needs of the people and the backwardness of social production. It was imperative that the focus of Party and government work be shifted to socialist modernization centring on economic construction and that the people's material and cultural life be gradually improved by means of an immense expansion of productive forces. In the final analysis, the mistake we made in the past was that we failed to persevere in making this strategic shift. What is more, the preposterous view opposing the so-called "theory of the unique importance of productive forces," a view diametrically opposed to historical materialism, was put forward during the "cultural revolution." We must never deviate from this focus, except in the event of large-scale invasion by a foreign enemy (and even then it will still be necessary to carry on such economic construction as wartime conditions require and permit). All our Party work must be subordinated to and serve this central task — economic construction. All our Party cadres, and particularly those in economic departments, must diligently study economic theory and economic practice as well as science and technology.

b) In our socialist economic construction, we must strive to reach the goal of modernization systematically and in stages, according to the conditions and resources of our country. The prolonged "left" mistakes we made in our economic work in the past consisted chiefly in departing from Chinese realities, trying to exceed our actual capabilities and ignoring the economic returns of construction and management as well as the scientific confirmation of our economic plans, policies and measures, with their

concomitants of colossal waste and losses. We must adopt a scientific attitude, gain a thorough knowledge of the realities and make a deep analysis of the situation, earnestly listen to the opinions of the cadres, masses and specialists in the various fields and try our best to act in accordance with objective economic and natural laws and bring about a proportionate and harmonious development of the various branches of economy. We must keep in mind the fundamental fact that China's economy and culture are still relatively backward. At the same time, we must keep in mind such favourable domestic and international conditions as the achievements we have already scored and the experience we have gained in our economic construction and the expansion of economic and technological exchanges with foreign countries, and we must make full use of these favourable conditions. We must oppose both impetuosity and passivity.

c) The reform and improvement of the socialist relations of production must be in conformity with the level of the productive forces and conducive to the expansion of production. The state economy and the collective economy are the basic forms of the Chinese economy. The working people's individual economy within certain prescribed limits is a necessary complement to public economy. It is necessary to establish specific systems of management and distribution suited to the various sectors of the economy. It is necessary to have planned economy and at the same time give play to the supplementary, regulatory role of the market on the basis of public ownership. We must strive to promote commodity production and exchange on a socialist basis. There is no rigid pattern for the development of the socialist relations of production. At every stage our task is to create those specific forms of the relations of production that correspond to the needs of the growing productive forces and facilitate their continued advance.

d) Class struggle no longer constitutes the principal contradiction after the exploiters have been eliminated as classes. However, owing to certain domestic factors and influences from abroad, class struggle will continue to exist within certain limits for a long time to come and may even grow acute under certain conditions. It is necessary to oppose both the view that the scope of class struggle must be enlarged and the view that it has died out. It is imperative to maintain a high level of vigilance and conduct effective struggle against all those who are hostile to socialism and try to sabotage it in

the political, economic, ideological and cultural fields and in community life. We must correctly understand that there are diverse social contradictions in Chinese society which do not fall within the scope of class struggle and that methods other than class struggle must be used for their appropriate revolution. Otherwise, social stability and unity will be jeopardized. We must unswervingly unite all forces that can be united with and consolidate and expand the patriotic united front.

e) A fundamental task of the socialist revolution is gradually to establish a highly democratic socialist political system. Inadequate attention was paid to this matter after the founding of the People's Republic, and this was one of the major factors contributing to the initiation of the "cultural revolution." Here is a grievous lesson for us to learn. It is necessary to strengthen the building of state organs at all levels in accordance with the principle of democratic centralism, make the people's congresses at all levels and their permanent organs authoritative organs of the people's political power, gradually realize direct popular participation in the democratic process at the grass roots of political power and community life and, in particular, stress democratic management by the working masses in urban and rural enterprises over the affairs of their establishments. It is essential to consolidate the people's democratic dictatorship, improve our Constitution and laws and ensure their strict observance and inviolability. We must turn the socialist legal system into a powerful instrument for protecting the rights of the people, ensuring order in production, work and other activities, punishing criminals and cracking down on the disruptive activities of class enemies. The kind of chaotic situation that emerged in the "cultural revolution" must never be allowed to happen again.

f) Life under socialism must attain a high ethical and cultural level. We must firmly eradicate such gross fallacies as the denigration of education, science and culture and discrimination against intellectuals, fallacies which had long existed and found extreme expression during the "cultural revolution"; we must strive to raise the status and expand the role of education, science and culture in our drive for modernization. We unequivocally affirm that, together with the workers and farmers, the intellectuals are a force to rely on in the cause of socialism and that it is impossible to carry out socialist construction without culture and the intellectuals. It is imperative for the whole Party to engage in a more diligent

study of Marxist theories, of the past and present in China and abroad, and of the different branches of the natural and social sciences. We must strengthen and improve ideological and political work and educate the people and youth in the Marxist world outlook and communist morality; we must persistently carry out the educational policy which calls for an all-round development morally, intellectually and physically, for being both red and expert, for integration of the intellectuals with the workers and farmers and the combination of mental and physical labour, and we must counter the influence of decadent bourgeois ideology and the decadent remnants of feudal ideology, overcome the influence of petty-bourgeois ideology and foster the patriotism which puts the interests of the motherland above everything else and the pioneer spirit of selfless devotion to modernization.

g) It is of profound significance to our multi-national country to improve and promote socialist relations among our various nationalities and strengthen national unity. In the past, particularly during the "cultural revolution," we committed, on the question of nationalities, the grave mistake of widening the scope of class struggle and wronged a large number of cadres and masses of the minority nationalities. In our work among them, we did not show due respect for their right to autonomy. We must never forget this lesson. We must have a clear understanding that relations among our nationalities today are, in the main, relations among the working people of the various nationalities. It is necessary to persist in their regional autonomy and enact laws and regulations to ensure this autonomy and their decision making power in applying Party and government policies according to the actual conditions in their regions. We must take effective measures to assist economic and cultural development in regions inhabited by minority nationalities, actively train and promote cadres from among them and resolutely oppose all words and deeds undermining national unity and equality. It is imperative to continue to implement the policy of freedom of religious belief. To uphold the four fundamental principles does not mean that religious believers should renounce their faith but that they must not engage in propaganda against Marxism-Leninism and Mao Zedong Thought and that they must not interfere with politics and education in their religious activities.

h) In the present international situation in which the danger of war still exists, it is necessary to strengthen the modernization of our national

defence. The building up of national defence must be in keeping with the building up of the economy. The People's Liberation Army should strengthen its military training, political work, logistic service and study of military science and further raise its combat effectiveness so as gradually to become a still more powerful modern revolutionary army. It is necessary to restore and carry forward the fine tradition of unity inside the army, between the army and the government and between the army and the people. The building of the people's militia must also be further strengthened.

i) In our external relations, we must continue to oppose imperialism, hegemonism, colonialism and racism, and safeguard world peace. We must actively promote relations and economic and cultural exchanges with other countries on the basis of the Five Principles of Peaceful Coexistence. We must uphold proletarian internationalism and support the cause of the liberation of oppressed nations, the national construction of newly independent countries and the just struggles of the peoples everywhere.

j) In the light of the lessons of the "cultural revolution" and the present situation in the Party, it is imperative to build up a sound system of democratic centralism inside the Party. We must carry out the Marxist principle of the exercise of collective Party leadership by leaders who have emerged from mass struggles and who combine political integrity with professional competence, and we must prohibit personality cults in any form. It is imperative to uphold the prestige of Party leaders and at the same time ensure that their activities come under the supervision of the Party and the people. We must have a high degree of centralism based on a high degree of democracy and insist that the minority is subordinate to the majority, the individual to the organization, the lower to the higher level and the entire membership to the Central Committee. The style of work of a political party in power is a matter that determines its very existence. Party organizations at all levels and all Party cadres must go deep among the masses, plunge themselves into practical struggle, remain modest and prudent, share weal and woe with the masses and firmly overcome bureaucratism. We must properly wield the weapon of criticism and self-criticism, overcome erroneous ideas that deviate from the Party's correct principles, uproot factionalism, oppose anarchism and ultra-individualism and eradicate such unhealthy tendencies as the practice of seeking perks and privileges. We must consolidate the Party organization, purify the Party ranks and weed out

degenerate elements who oppress and bully the people. In exercising leadership over state affairs and work in the economic and cultural fields as well as community life, the Party must correctly handle its relations with other organizations, ensure by every means the effective functioning of the organs of state power and administrative, judicial and economic and cultural organizations and see to it that trade unions, the Youth League, the Women's Federation, the Science and Technology Association, the Federation of Literary and Art Circles and other mass organizations carry out their work responsibly and on their own initiative. The Party must strengthen its co-operation with public figures outside the Party, give full play to the role of the Chinese People's Political Consultative Conference, hold conscientious consultations with democratic parties and personages without party affiliation on major issues of state affairs and respect their opinions and the opinions of specialists in various fields. As with other social organizations, Party organizations at all levels must conduct their activities within the limits permitted by the Constitution and the law.

36. In firmly correcting the mistake of the so-called "continued revolution under the dictatorship of the proletariat," a slogan which was advanced during the "cultural revolution" and which called for the overthrow of one class by another, we absolutely do not mean that the tasks of the revolution have been accomplished and that there is no need to carry on revolutionary struggles with determination. Socialism aims not just at eliminating all systems of exploitation and all exploiting classes but also at greatly expanding the productive forces, improving and developing the socialist relations of production and the superstructure and, on this basis, gradually eliminating all class differences and all major social distinctions and inequalities which are chiefly due to the inadequate development of the productive forces until communism is finally realized. This is a great revolution, unprecedented in human history. Our present endeavour to build a modern socialist China constitutes but one stage of this great revolution. Differing from the revolutions before the overthrow of the system of exploitation, this revolution is carried out not through fierce class confrontation and conflict, but through the strength of the socialist system itself, under leadership, step by step and in an orderly way. This revolution which has entered the period of peaceful development is more profound and arduous than any previous revolution and will not only take a very long

historical period to accomplish but also demand the unswerving and disciplined hard work and heroic sacrifices of many generations. In this historical period of peaceful development, revolution can never be plain sailing. There are still overt and covert enemies and other saboteurs who watch for opportunities to create trouble. We must maintain high revolutionary vigilance and be ready at all times to come out boldly to safeguard the interests of the revolution. In this new historical period, the whole membership of the Chinese Communist Party and the whole people must never cease to cherish lofty revolutionary ideals, maintain a dynamic revolutionary fighting spirit and carry China's great socialist revolution and socialist construction through to the end.

37. Repeated assessment of our successes and failures, of our correct and incorrect practices, of the 32 years since the founding of our People's Republic, and particularly deliberation over and review of the events of the past few years, have helped to raise immensely the political consciousness of all Party comrades and of all patriots. Obviously, our Party now has a higher level of understanding of socialist revolution and construction than at any other period since liberation. Our Party has both the courage to acknowledge and correct its mistakes and the determination and ability to prevent repetition of the serious mistakes of the past. After all, from a long-term historical point of view the mistakes and setbacks of our Party were only temporary whereas the consequent steeling of our Party and people, the greater maturity of the core force formed among our Party cadres through protracted struggle, the growing superiority of our socialist system and the increasingly keen and common aspiration of our Party, army and people for the prosperity of the motherland will be decisive factors in the long run. A great future is in store for our socialist cause and for the Chinese people in their hundreds of millions.

38. Inner-Party unity and unity between the Party and the people are the basic guarantee for new victories in our socialist modernization. Whatever the difficulties, as long as the Party is closely united and remains closely united with the people, our Party and the cause of socialism it leads will certainly prosper day by day.

The Resolution on Certain Questions in the History of Our Party unanimously adopted in 1945 by the Enlarged Seventh Plenary Session of the Sixth Central Committee of the Party unified the thinking of the whole

Party, consolidated its unity, promoted the rapid advance of people's revolutionary cause and accelerated its eventual triumph. The Sixth Plenary Session of the 11th Central Committee of the Party believes that the present resolution it has unanimously adopted will play a similar historical role. This session calls upon the whole Party, the whole army and the people of all our nationalities to act under the great banner of Marxism-Leninism and Mao Zedong Thought, closely rally around the Central Committee of the Party, preserve the spirit of the legendary Foolish Old Man who removed mountains and work together as one in defiance of all difficulties so as to turn China step by step into a powerful modern socialist country which is highly democratic and highly cultured. Our goal must be attained! Our goal can unquestionably be attained!

Some Questions on Current Rural Economic Policy (Excerpts)

The Central Committee of the Communist Party of China issued *Some Questions on Current Rural Economic Policy* in early 1983 (No. 1 Document, 1983) and notified the various places to implement it on a trial basis as a draft document and extensively collect opinions about it.

The 12th National Congress of the Communist Party of China put forward the magnificent goal of creating a new situation in all fields of socialist modernization and striving to quadruple the nation's annual total value of industrial and agricultural output by the end of the century, and decided that agricultural development is one of the key strategic points in fulfilling this magnificent goal. Comrades of the whole Party, especially those on the agricultural front, must firmly shoulder this glorious and arduous mission.

Our countryside has experienced many important changes since the Third Plenary Session of the 11th Central Committee of the Party in 1978. Among them, the change of most far-reaching influence is the general adoption of various forms of production responsibility system in agriculture, and the contracted responsibility system with remuneration linked to output has increasingly become the main form. The latter system follows the principle of integrating unified operation with scattered operation, thereby bringing into play both the collective advantage and individual initiative. And its further improvement and development will certainly enable the specific road of socialist agricultural co-operation to conform better to our realities. This is a great creation of our farmers under the leadership of the Party and a new development of Marxist theory of agricultural co-operation in the course of our practice.

The contracted responsibility system with remuneration linked to output and the implementation of rural policies have changed the prolonged stagnation in our agricultural production, and promoted the transformation from self-sufficient and semi-self-sufficient economy into relatively large scale commodity production and from traditional to modern agriculture. This tendency presages the earlier coming of the rapid rural economic upsurge, which will provide a better condition for China to reach the strategic goal of the 12th Party Congress. Now the orientation is clear, the

road has been opened and the masses are marching forward. The major problems in front of us are that quite a number of comrades are not fully prepared ideologically for this historic change and that the reforms of certain parts of the superstructure fall behind the needs arising from changes in the economic base. Unless these have been changed, the rising enthusiasm of the farmers might be frustrated again and the vigorous rural economy might be stagnated. All the departments of the Party and the government and the leading cadres at all levels should strive to emancipate further their minds, be bolder in adopting reforms, work in a more down-to-earth way, serve the people, the grass-roots level and production wholeheartedly and actively, earnestly implement the line, principles and policies decided by the 12th Party Congress, and rely on the 800 million farmers and intellectuals to make contributions to building the new countryside with highly developed material and spiritual civilizations so as to ensure the growing prosperity of our rural socialist cause.

1. To strive for fulfilling the task of quadrupling the national annual value of industrial and agricultural output by the end of the century and realizing the targets of agricultural development set by the state, all places must work out their agricultural development plans in accordance with their resources and economic and technical conditions and take effective measures to ensure the fulfilment of the plans.

To realize the goal of agricultural development, it is necessary to pay attention to controlling strictly the population growth, use natural resources rationally and maintain good ecological environment. Under these conditions we shall reform the structure of agricultural economy, make use of the limited farmland to practise intensive operation, and switch the large number of surplus labour to the broad field of diversified management; reform the economic management system, bring economic vigour into play and create a lively situation in which commodity production is steadily expanding; continue the technical transformation of agriculture, improve the production conditions in agriculture, strengthen the work of agricultural science, technology and education and provide agriculture with a relatively advanced material and technical basis. In general, we want gradually realize the reforms of economic structure, systems and technology in agriculture according to the conditions of our country and take the socialist road of agricultural development with Chinese characteristics.

2. Only by taking the road of all-round development of agriculture, forestry, livestock breeding, side occupations and fishery and comprehensive agriculture-industry-commerce operation can we maintain the beneficial circle of agricultural ecology and raise economic efficiency; meet the needs of industrial development and of the urban and rural people; enable the rural surplus labour to divorce from land cultivation but not to leave the rural areas and establish an economic structure with diverse departments; help the farmers to live much better, change the face of villages, build large numbers of small economic and cultural centres and gradually eliminate the differences between industry and agriculture and between town and countryside.

Following the correct principle of firmly paying attention to grain production and actively developing diverse operations, we adjusted the agricultural structure and achieved good results in recent years. Our country has a large population but relatively limited farmland and feeding the nation has always been a matter of cardinal importance. Grain is the staple food of our people and the major raw material of food and fodder industries, and judged from an overall view, the solution of grain question must be based on our own efforts. Therefore, closest attention must be paid to grain production and the farmland suited to growing grain crops shall be ensured to plant these crops, thus achieving the steady increase of total grain output. At the same time, appropriate areas of cultivated land shall be rationally allocated to growing industrial crops and the land unsuitable for cultivation shall be used again for forestry, livestock breeding and fishery. We shall set eyes on the vast territories of mountain and hilly areas, pastures, water surfaces, sea areas and mudland, carry out planned development and construction, and increase the output of food and industrial raw materials such as animal products, aquatic products, forestry products, grain and vegetable oil from woody plants, and fruits. All kinds of production must emphasize the increase of per-unit yields and economic results.

There are great potentialities in our livestock breeding, especially the breeding of grass-eating animals like cattle and sheep. The opinion that livestock breeding cannot be developed before there has been plenty of grain does not tally with the fact. As long as we adopt scientific breeding, do a good job in building the fodder industry and make rational use of fodder resources, it will not take a long time to double the output of such food

supplied by animals as meat, egg and milk. The growth of livestock breeding and its integration with agriculture and forestry will, in turn, promote agricultural development.

The long-term practice of transporting farm produce over long distances to cities for processing and leaving the rural areas only to produce raw materials not only leads to unnecessary loss and waste of farm produce but restricts both the employment scope of rural labour force and the multiple use of farm produce; this should be gradually changed in a planned way. In the future the newly added capacity to process farm produce should be as close as possible to its production places. The farmers shall be permitted to process and sell the surplus farm produce after they have fulfilled their sales quotas, and the multiple use of farm produce will increase their incomes. But there must be unified arrangements to ensure the fulfilment of state revenue and state purchase and sales plans.

3. To stabilize and improve the production responsibility system in agriculture is still a major task in the current rural work.

The rapid spread of contracted responsibility system with remuneration linked to output is by no means accidental. With a household or a small group as the contract unit, this system enlarges the farmers' independent power, make better use of the strong points in small-scale operation and overcomes the shortcomings of overconcentrated management, many people doing the same work regardless of efficiency and equalitarianism; the system also retains the positive results of previous co-operatives and maintains the public ownership of land and other basic means of production and certain functions of unified management; thus the system better brings the new productive forces formed over many years into play. This method of management integrating scattered management with unified management is widely adaptable; it may suit the condition of mainly using manual labour and the features of agricultural production at the present time and meet the needs of expanding productive forces in the course of agricultural modernization. Under this method of operation, the separate household operation with contracted responsibility is only a level of operation in the co-operative economy and a new type of household economy. It essentially differs from the past small individual economy of private ownership and the two should not be confused. Therefore, whenever the farmers want to adopt this method, we should give them active support.

Of course, when the farmers do not want to adopt it, we should not force them to do so; different forms of responsibility system should be allowed to exist side by side.

The key to improve the contracted responsibility system with reward linked to output is to handle well the relationship between unified and scattered management through signing contracts. The communes and production brigades that mainly practise unified management should absorb the merits of contracted household responsibility. For example, some places have adopted the method of "contracting out specialized jobs and distributing rewards on the basis of prescribed quotas" while maintaining unified management of agriculture, side occupations and industry, and achieved fairly good results. In line with the needs of expanded production and the principle of mutual benefit, the communes and production brigades that mainly practise household operation should undertake what the commune members want to be done in a unified way such as machine ploughing, water conservancy, plant protection, pest prevention, cultivating strains and breeding; these communes and production brigades should make overall arrangements, carry out unified management, contract out the jobs separately, establish systems and serve the farmer households.

The contracted responsibility system with reward linked to output shall be quickly established in forestry, livestock breeding, fishery, the development of barren mountains unused water surfaces, and other diversified management.

It is essential to establish and improve the contracted responsibility system. This is the key link in improving the production responsibility system in agriculture and is also beneficial to the correct handling of relations between the state, the collective and the individual as well as to integrating the state purchase of farm produce with the supply of the means of production and subsistence to the farmers.

It is necessary to strengthen management and operation and establish the sound system of financial management. Besides, in some places the contracted use of land is inappropriate, the measures to encourage investment in soil amelioration and other land improvement projects have not existed, the methods of assistance to households with difficulties have not been implemented, the responsibility system of cadres at different positions is imperfect and there are still irrational rewards to cadres and

different trades; all these questions should be rapidly and properly solved.

4. To develop various forms of co-operative economy to meet the needs of commodity production.

With the growth of diversified management and the establishment of the contracted responsibility system with remuneration linked to output in recent years, there have appeared large numbers of specialized households (key households), including those under the contracted responsibility system and those conducting their own operations. Since the start they have been commodity producers, stressed economic results and made full use of scattered funds and labour force, thereby bringing the ability of various rural experts into play and promoting the division of work along specialized lines of production and diversified economic combinations.

Economic combination is the inevitable demand arising from expanded commodity production and the necessary road to building modernized socialist agriculture. The socialized services before and after various kinds of production such as supply and marketing, processing, storage, transport, technology, information and credit have gradually become the urgent needs of agricultural producers. To cope with this objective situation, the co-operative economy will also extend to these fields and continue to enrich its forms and contents.

Under the "left" mistaken influence, there have prevailed some wrong concepts for a long time: Whenever we talked about co-operation, all the means of production had to be merged together and even limited household operation was impermissible, only distribution according to work was allowed but not dividend on money invested, only co-operation of production was included but not co-operation before and after production or in any other links, organization should only be based on areas and the level of ownership must be gradually raised but there was no place for inter-area, multiple-level combinations. These stereotypes which divorced from facts have begun to be shattered by the practice of the masses.

In the light of our rural conditions, the level of public ownership of the means of production, the forms of distribution according to work as well as the contents and forms of co-operation in the co-operative economy may differ and keep their own features in various areas and kinds of production and under different economic conditions. For example, combination may cover work and fund without changing the ownership of the means of

production of the participating units and individuals or with the form of household operation; in addition to co-operation in production, combination may also be organized in such fields as supply and marketing, storage and transport, and technical service; combination may be within one area or over many areas. Any kind of combination may be included in the socialist co-operative economy as long as it follows the principle of voluntary participation and mutual benefit among the working people, accepts the guidance of state plans, practises democratic management, puts aside public reserves, lets the collective own the accumulation, carries out distribution according to work or mainly uses this method of distribution and at the same time distributes a certain amount of dividend to investment. Based on the needs of economic development, this will naturally and not reluctantly link the vast numbers of scattered producers together through different forms of levels of combinations and make them organic components of the whole socialist economy.

5. The structure of the people's commune will be reformed in two aspects. First, the adoption of production responsibility system, particularly the contracted responsibility system with remuneration linked to output; second, the separation of government administration from commune management.

The system of integrating government administration with commune management will be changed into that of their separation step by step with adequate preparations, and the reform of commune system will be carried out group after group when preparations have been completed. Before the reform has been put into effect, the communes and production brigades shall continue to shoulder earnestly their administrative functions of government and ensure the smooth progress of the work of political power. After the separation is completed, the primary organizations of political power will be established in accordance with constitution.

After the adoption of the contracted responsibility system with remuneration linked to output, the basic accounting units of the people's commune — production brigades or teams — may mainly follow unified or household operations. They still belong to the co-operative economy owned collectively by the working people. Their managing organizations must still guide and arrange certain production items according to state plans, ensure the fulfilment of sales quotas, manage the collective land and other basic

means of production as well as other public property, and provide commune members with services. To put land under good operation, these co-operative economic organizations based on areas are necessary. Their names, scales and management organs will be democratically decided by the masses. Whether the communes and production brigades which are not basic accounting units will be abolished or kept as organizations of economic combinations shall be consulted with the masses in the light of specific conditions. The public undertakings at the commune level will continue to get their appropriated expenses.

The existing commune and production brigade enterprises not only constitute economic strength to support farm production but also provide services for farmers in their diversified management; in the course of structural reforms they shall be carefully protected and not be weakened, let alone to be freely destroyed and divided. These enterprises also belong to the co-operative economy and they shall be run well with extra efforts and continuously reinforced and developed. It is necessary to make earnest adjustment and consolidation, strengthen democratic management and supervision by the masses, and establish various forms of production responsibility system. Some enterprises may adopt the contracted system of managers (factory directors) assuming responsibility on a trial basis. The basic features of this system are: The ownership and accumulation of the enterprise belong to the collective and the manager has full power to handle the business of the enterprise within the scope delegated by the collective during the contracted period; with the fulfilment of the contracted targets the manager gets higher rewards or a certain proportion of the above-target profit; in case of unfulfilled targets or losses the manager gets correspondingly reduced rewards or bear a certain proportion of the losses. In adopting this system care shall be taken to avoid the phenomenon of some people monopolizing the work by means of their power.

6. Ours is a socialist country which forbids the existence of exploitive system. However, ours is also a developing country; its level of productive forces is relatively low and commodity production is undeveloped, which is particularly so in the countryside. Permission of the flow of fund, technology and labour force within a certain extent and of their various forms of combination is beneficial to the growth of socialist economy. Therefore, some economic phenomena newly arising from the rural areas

should be treated separately. For example, the exchange of labour between farmer households, the short-term hands employed by those people who have lost their working ability or lack labour force in order to maintain their living, the seasonal, specialized or technical workers employed by co-operative organizations from other ones, etc. are all mutual aid in labour or technical co-operation among the masses and shall be permitted. The employment of helpers or the acceptance of apprentices by individual industrial and commercial households and expert cultivators and breeders in the countryside shall be handled in comparison with Some Policy Decisions of the State Council Concerning Urban Non-Agricultural Individual Economy.

The purchase of machines and tools for processing farm and sideline products, small tractors and small motorized ships by individual farmers or groups of farmer households to be used in production and transport is beneficial to the growth of rural commodity production and invigorating rural economy and this should be permitted. The purchase of large and medium tractors and trucks or buses by individuals shall not be prohibited in principle at the present stage. Local places may work out their methods of planned sales according to their local conditions and the possible supply of oil. State enterprises and undertakings shall not sell their replaced trucks or buses to the farmers.

7. We are entering a period of rapid development of socialist commodity production in both urban and rural areas; in order to stimulate commodity circulation and promote the growth of commodity production, we shall adhere to the principle of the leading role of the planned economy and the supplementary role of market regulation, adjust the purchase and sales policy, reform the state commercial system, vigorously develop the co-operative economy and properly develop individual commerce. The aim is to ensure the leading role of state commerce and the co-existence of various forms of commercial economy. It is necessary to break up the separation between town and countryside and the blockade between different areas, and to open more channels for commodity circulation.

First, adjust the purchase and sales policy of farm and sideline products. It is certainly necessary to adopt unified and prescribed purchases of important farm and sideline products but their varieties should not be too many. The small number of important farm products relating to the national

economy and people's livelihood will be continuously placed under unified and prescribed purchases; the products of which the quotas of state unified or prescribed purchases have been fulfilled by the farmers (including grain but not cotton) and the products not placed under unified and prescribed purchases should be allowed to be bought and sold through many channels. State commerce will actively develop the purchases and sales at negotiated prices and take part in market regulation. The supply and marketing co-operatives and other rural co-operative commercial organizations may flexibly buy and sell the permitted farm and sideline products; individual farmers may also take part in such dealings. These purchases and sales may extend to cities and go across county and provincial boundaries. Abolished are the stipulations on the examination and approval of the flow of farm and sideline products to other administrative areas by the related departments. All the farm and sideline products not included in the state purchase plans may have fluctuating prices.

Second, when unified and prescribed purchase is applied to some under-supplied commodities, it shall not cover all the products. If purchase quotas can be worked out, they should be decided and remain stable for several years so as to leave certain amounts of products to the producers for their disposal. The contract system of purchases and sales shall be gradually adopted. Once a contract is signed, it must be strictly observed.

Third, develop co-operative commerce. The existing co-operative commercial organizations such as joint agriculture-industry-commerce companies, the sales departments of the commune and production brigade enterprises, and trading warehouses have played a positive role in invigorating rural economy and promoting the exchange of goods between urban and rural areas, but there are also some problems; they should undergo consolidation, keep their advantages, eliminate their disadvantages and continue their development.

Supply and marketing co-operatives at the grass-roots level shall restore their character of co-operative commerce, extend their scope of operation and fields of services, and gradually become comprehensive service centres in supply and marketing, processing, storage, transport and technology. The original county supply and marketing co-operatives will be changed into joint economic organizations of supply and marketing co-operatives at grass-roots level. All the places where experiments on the structural reform of the system of supply and marketing co-operatives have

not been carried out at selected co-operatives shall soon put the experimental reform into practice; the places where the experimental reform has been done shall sum up experience and carry out the reform in their entire areas. The related departments under the State Council shall immediately work out specific plans to reform the structure of supply and marketing co-operatives, earnestly arrange for their implementation, and strive to complete this reform throughout the nation quickly and steadily.

Fourth, the rural individual commercial and service organizations provide convenience for the masses with their flexible operations, and they shall be properly developed and given the necessary assistance.

It should also be permissible for individual farmers or groups of farmers as partners to transport goods over long distances because this helps expand the sales of farm and sideline products and solve the contradiction between piling up goods at the producing places and the short supply of such goods at the consuming places. However, these farmers should register at the government organs of industry and commerce, pay taxes according to law and transport the farm and sideline products which have fulfilled their sales quotas to the state and are permitted to be sold on the market.

Fifth, state commerce shall make big efforts to supply the rural areas with industrial goods in accordance with the increasing needs of the farmers. At the same time, collective and individual commercial shops shall be allowed to buy goods from wholesale stations. There must be rational differences between wholesale and retail prices and between prices in different regions, thus ensuring some profit for the shops.

Sixth, after the flexible policy in rural circulation has been implemented, attention should be paid to educating the farmers in taking consideration of the interests of the state, the collective and the individual, and to encouraging them to fulfil the sales quotas to the state in both quality and quantity and make bigger contributions in supporting national construction and ensuring market supplies. At the same time, it is necessary to earnestly strengthen market management and firmly deal with various illegal acts in good time. The departments of industry and commerce, taxation, pricing, public security, communications and transport shall formulate related regulations in the light of the stipulations on the flexible policy so as to publish rules for people to abide by.

8 We shall continue the technical transformation of agriculture,

establish and improve the system of disseminating scientific and technical results in agriculture and the educational system of training people for rural construction, and bring about still faster growth of our rural economy on the basis of increasingly improved relations of production and steadily advancing technology.

Our technical transformation of agriculture should have its own features. On the one hand, we must pay attention to the merits of traditional agriculture such as meticulous cultivation, savings of energy, low consumption and maintenance of ecological balance; on the other hand, we should absorb modernized technology and advanced management in all fields of rural production and construction. The agricultural investment will be gradually increased. It is necessary to study and formulate once more the plans to realize mechanization in various regions of China. Now we should stress the development of small, multiple-purpose, high-quality and inexpensive farm machines, improve the water conservancy and irrigation conditions according to local circumstances, increase the supply of chemical fertilizers, improve the structure of proportions between nitrogen, phosphorus and potassium, ameliorate soil, raise land utilization rate and labour productivity, and rapidly make insecticides to replace the high-toxin and low-efficiency ones. Big efforts must be made to develop the urgently needed fields such as processing farm products, fodder industry, transport, post and telecommunications, storage and drying equipment, and energy resources which include small hydropower stations, wind power, biogas, solar power and firewood forests.

Attention should be paid to organizing the strength of scientific research, technical dissemination and education and training in agriculture to form a co-ordinated working system with rational division of work and to provide effective service for rural construction. Various places have accumulated a number of results of scientific research in a period of many years, and these must be well popularized and applied in production. We should organize the advanced areas to help the less advanced ones and do a good job in technical transfer so as to enable the latter areas to raise their production level rapidly. It is necessary to continuously select a group of scientific research projects that are of decisive significance in developing production, and organize the personnel concerned to solve them. There should be new breakthroughs and systematic scientific and technical

accumulation in such fields as the breeding and selection of good strains, prevention and cure of plant diseases and pests, prevention of epidemics of plant and animal and their quarantine, the comprehensive use of biological resources, the rational distribution of production and ecological balance.

To cope with the enthusiasm of studying and applying science that has appeared among the farmers, local places should run well state and collective service organizations for agricultural techniques to popularize agricultural scientific and technical knowledge, spread scientific and technical results and provide farmers with scientific and technical service through practising technical responsibility system and establishing demonstration households for the use of science and technology, technical service companies, production-science-technology combinations and associations for science and technology dissemination.

To carry out the reform of rural education at a fast pace. It is essential to popularize actively the primary compulsory education, wipe out illiteracy among the young and the middle-aged and increase the proportion of agricultural middle school and other vocational middle school step by step. The institutions of higher learning and secondary technical schools serving the rural areas will adopt new methods of enrolling students and allocating their graduates, thereby opening the roads leading the talented people to the countryside. The farmers will be provided with various forms of vocational and technical education and training. Rural education must be suited to but not divorced from the farmers' desire to expand production, get rich, through labour and have more people with skills, and must consider but not neglect the rural inhabitants' features in work and life. Different goals and arrangements should be made for various parts of the nation so as to cope with their financial conditions and material resources and the students' ability of acceptance. The departments concerned shall work out the reform plans as early as possible and implement them step by step.

There are large numbers of skilled craftsmen, veterans in production, educated young people and demobbed army men in the countryside; we should help them carry forward their specialities, support their establishment of technical service organizations and permit any rural economic organizations to recruit them; those who have reached certain levels of education by self-study and made contributions in work may be given technical titles after examination and appraisal. The state will quickly

formulate personnel system that encourages technical people to render their service in rural areas, and raise their rewards and other treatments. Intellectuals living in cities who voluntarily want to work in rural or remote border areas, including those intellectuals who want only to work for short periods, will be encouraged. In addition to their wages, rural technical personnel are permitted to sign responsibility contracts with economic organizations and get a certain proportion of the increased part of production.

9. Accelerating rural construction must open more sources of fund. With the improvement of state finance, agricultural investment will be gradually increased. However, the limited amount of state investment can only be used for major construction projects which are beyond the financial ability of the masses such as opening up key reclamation and forest regions and building large water conservancy and power projects, trunk roads, telecommunications facilities and storage and transport facilities. The investments for small farmland capital construction projects and service facilities depend mainly on the fund and labour accumulation of agriculture itself.

To solve the problem of fund, it is essential first to invigorate the rural economy. Invigorated rural economy may generate and accumulate funds. At the same time, the farmers will be educated in the meaning of "first feeding the nation and second carrying out construction" and all co-operative economic organizations will establish the three systems of depreciation on fixed assets, public reserves and necessary labour accumulation.

We will encourage individual farmers or farmers who pool their investments as shares to build some rural basic facilities such as warehouses, roads and small hydropower stations; to ensure the recovery and turnover of fund, their use will be compensated and the builder will get the benefits of his projects. The Agricultural Bank and credit co-operatives shall improve their service and play their proper role in accumulating fund, giving credit and supervising the use of fund. The credit co-operatives should adhere to the character of co-operatives banking organizations.

Any work that needs the use of civilian resources must follow the principle of acting according to the ability and never repeat the past mistakes of doing everything in a big way. Attention has to be paid to reducing the

number of people to be used, saving on expenses, eliminating waste and lessening the farmers' burden.

10. In order to grasp firmly grain production and put the active development of diversified management on a solid footing, agriculture, forestry, livestock breeding, sideline occupation and fishery should all build a number of commodity production bases according to the principle of adapting to local conditions, carrying forward advantages and achieving adequate concentration. These bases will have their main products, fairly high marketable rates of their output, corresponding service systems of supply and marketing, transport, processing, storage and technology, and basic facilities of energy, communications, post and telecommunications, and water conservancy. Prior to the building of big, medium and small commodity production bases, including the building of small towns, it is necessary to complete surveys, planning and designing and incorporate the building projects into state or local capital construction plans after the approval of the related departments.

What has been produced by the production bases should be locally put to comprehensive uses as much as possible and shipped out in the form of finished or semi-finished products. Grain production bases should also use the surplus grain that is left after fulfilling the delivery quotas to set up food and fodder industries and develop livestock breeding so as to make use of the economic benefits derived from multiple-purpose use and reduce the transport and selling expenses.

State commerce, foreign trade, light industrial branches and supply and marketing co-operatives should also run well their commodity production bases on the existing basis and establish together with local farmers various forms of economic ties and joint operations according to the principle of mutual benefit.

State farms, forest farms, ranches and fish farms are the nation's important commodity production bases; they should practise economic responsibility system and comprehensive agriculture-industry-commerce operation, strive to raise the output and quality of commodities and make still bigger contributions.

11. The production level is now still very low and the masses still have many difficulties in their living in some remote mountain areas and places inhabited by national minorities. We must give them special consideration,

earnestly strengthen work in these places and strive to change their poor conditions as soon as possible.

All policies shall be much more flexible in these areas than in other places; it is essential to make use of local resources in production and use effectively the state financial assistance to develop diversified management, replace relief with provision of work and alter the method of only offering relief. Attention should be paid to improving communications, solving energy difficulties, preventing and curing local diseases and doing a good job in education.

In the pastoral areas it is necessary to make investigations and studies and improve production, circulation and all other economic policies.

12. Excessive felling of trees, reduced area of cultivated land and population expansion are the three big hidden calamities in our countryside. Under excellent conditions we must be sober-minded towards these problems, take effective measures in all aspects and earnestly deal with them. We must first firmly check the bad tendency of cutting down trees and occupy the cultivated land arbitrarily, and strictly control the births above plans. At the same time, we will strengthen investigations and studies and solve the problems in system, policy and legislation step by step.

It is essential to implement the various policies of forestry in earnest, mobilize the masses to afforest, protect forests, turn the motherland green, expand the area of vegetation and build ecological shelters. It is also essential to increase properly the area of mountains for personal use, actively support the households specializing in nursing saplings and afforesting, and run state and collective forest farms well. It must be clearly publicized that the planters own the trees and the trees planted by individuals may be inherited.

It is a good thing to improve properly the living conditions when farmers gradually become well-off. But there must be adequate planning to control strictly the use of cultivated land for building houses. The masses will be educated to know our relatively limited area of cultivated land in relation to population and value every inch of such land. What we advocate is that housing will be compact, rational, suitable for living and clean but not seek for vast floor space. Comprehensive plans for building rural market towns should be quickly worked out on the basis of full investigations and studies, and they may be put into practice after the approval of the related urban and rural construction departments and county people's governments.

Family planning concerns economic development and national prosperity or decline and shall not be relaxed under any pretext. We should further improve its policy after investigations and studies and enhance the awareness and enthusiasm of the vast majority of masses in birth control. The work method will be improved, propaganda and education reinforced and coercion and commandism prevented. The acts of killing girl babies or even injuring their mothers must be strictly checked.

To solve the three problems mentioned above, we must stress the need of Party members and cadres to take the lead, implement the policies in an exemplary way and put an end to the unhealthy tendencies. The county Party committee and the county people's government must earnestly assume the responsibility. Clear responsibility system will be established for cadres below the county level.

13. The Party's work in rural areas must always grasp the two things firmly—the material civilization and the spiritual civilization, thereby realizing the steady improvement of material life, continuous progress of ideological and political levels and growing enrichment of knowledge in the whole countryside. It must be pointed out: Doing a good job in various rural economic work may promote the progress of ideological and political work but cannot become a substitute for the latter work; only when the ideological and political work has been strengthened can the sound development of various rural reforms be ensured. According to the related directives to be soon issued by the Central Committee, all places should carry forward the fine traditions, integrate the Party's ideological and political work with all reforms and production activities, and ensure the progress of various reforms and production and construction.

It is essential to strengthen the building of rural cultural and health facilities. They may be undertaken by the state or the collectives, but encouragement and support will be particularly given to their building by the farmers themselves. The activities to build civilized villages and families will be developed through formulating village rules and generally observed rules of the people. Public security will be consolidated and mass organizations for local security and for mediation of civil affairs strengthened. It is necessary to oppose and check all kinds of unhealthy tendencies and unlawful acts, strengthen unity between neighbours and family harmony, improve village outlook and customs and foster new socialist customs.

14. To train cadres systematically, raise their quality and improve and strengthen the Party's leadership.

We have made advances in building the socialist agriculture with Chinese characteristics, but in general we are still in the process of exploring. During this period of big historical transformation, all kinds of outdated old ideas and habits often prevent people from understanding the new situation and accepting new things and thus lead to losses caused by delayed work. Therefore, the leadership of all levels must first do a good job in the ideological and educational work of the cadres, and through systematic training, organizing investigations, summing up work and consolidating Party style of work help the cadres further emancipate their minds, broaden their vision, continuously eliminate the "left" influence in thinking, break up the set patterns that restrict the growth of productive forces and take a correct attitude towards new things. At the same time, the leadership should seek truth from facts, strive to be sure of success and integrate principle with flexibility in making specific decisions. The leadership should learn all things that they do not understand from the masses and experts as well as in the course of practice; conduct investigations and experiments on matters of important concern; earnestly deal with and strive to do a good job in the things that the vast majority of masses want to do and are capable of doing. It is also necessary to respect always the initiative of the masses, get the opinions from the masses and refer them back to the masses, adhere to providing guidance according to different kinds of work and proceed from local conditions.

With the development of commodity production and the expansion of market, cadres of the related departments must all learn the ability of using various economic means, enlarge the field of work, raise the quality of service, organize the farmers through their work and give play to the role of guidance by planning.

In the last few years the related organs of Party committees and people's governments at different levels strengthened systematic investigations and studies, provided scientific data for the Party to formulate rural policies and also did a lot of work in unifying the actions of various trades. While carrying our reforms of organizations, we should pay attention to ensuring the continuity of work, preserving the necessary personnel and not weakening the work.

It is necessary to show concern for and train the existing cadres, encourage them to work hard, and at the same time select able persons without improper restrictions, choose cadres from middle-aged and young people who have some practical experience and scientific knowledge, and gradually build the ranks of cadres capable of bringing about agricultural modernization.

To reinforce legislation, it is suggested that the state organs strengthen their control of the different forms of rural economy and their activities by regulations and work out corresponding regulations and rules. At the same time, these organs should examine the past related regulations and rules one by one and keep or abrogate them accordingly. All laws and regulations should be promulgated in proper forms so that there are legal provisions to guide people and punish those who violate them.

The steady growth of agricultural production and the continuous rise of farmers' socialist enthusiasm have proved that the Party's rural policy is correct, the cadres are working hard and the work has attained outstanding results. Now the 12th Party Congress has put forth a more magnificent goal before us; the Central Committee is fully convinced that the Party organizations at different levels and all cadres will certainly fulfil their glorious tasks with excellent results and that the all-round upsurge of our rural economy will surely be realized at an earlier date.

Circular of the Central Committee of the Communist Party of China Concerning the Rural Work in 1984 (January 1, 1984)

I

After having been put into effect on a trial basis for one year, the stipulations in the document *Some Questions on Current Rural Economic Policy* issued by the Central Committee of the Communist Party of China in January 1983 have produced remarkable results, thus proving that the basic objectives, principles and policy put forward by the document are correct; the Central Committee decides that the document shall become a formal one guiding the rural work for a period in the future and shall be continuously implemented.

Thanks to the joint efforts of the whole Party and the cadres and masses on all fronts throughout the country in the past year, agricultural production obtained a record rich harvest and rural work made inspiring progress. This fact strengthens our confidence that as long as we ensure the stability and continuity of the Party's policy and continue to sum up new experiences and solve new problems in the course of practice, we are able to unite with and lead the hundreds of millions of farmers in developing the already created new situation in the rural areas and realizing the outstanding goals set by the 12th Party Congress and at the same time to blaze a socialist road of agricultural development with Chinese characteristics.

II

This year's rural work shall lay stress on the following: Raising the level of productive forces, straightening out the channels of circulation and developing commodity production on the basis of stabilizing and improving the production responsibility system.

The universal adoption of production responsibility system in agriculture has brought about the liberation of productive forces and the growth of commodity production. The transformation from a self-sufficient or semi-self-sufficient economy into relatively large-scale commodity

production is an insurmountable and inevitable process in developing our socialist rural economy. Only by developing commodity production can we further promote the social division of work and raise the productive forces to a new level, achieve rural prosperity and affluence, enable our cadres to learn how to make use of the commodity-money relations and the law of value in serving the planned economy, and rapidly achieve the modernization of our socialist agriculture.

III

Continue to stabilize and improve the contracted responsibility system with remuneration linked to output, help the farmers enlarge their scale of production and raise their economic results on the basis of household operation.

1. Prolonging the contracted period of land use and encouraging farmers to increase investments, enrich land fertility and adopt intensive operations.

The contracted period of land use shall generally exceed 15 years. It shall be even longer for projects of long production cycles or development projects such as fruit trees, timber forests, barren mountains and wasteland. If the masses want to adjust their contracted land before the extension of the contracted period, the collective may carry out unified adjustment on the principle of "mainly keeping the original state while making minor adjustments" and after full consultations.

Encouraging the gradual concentration of land on the able cultivators. During the contracted period, commune members who want to reduce the area of contracted land or terminate its use because of lack of manpower or switch to other trades may hand over the excessive land to the collective for unified arrangements or, with the consent of the collective, transfer their contracted land to other farmers through mutual consultations. But they cannot arbitrarily change the contents of the contracts signed with the collective. The terms of this transfer of contracted land may be agreed by both sides in accordance with local conditions. Under the present system of planned grain purchase and supply, households that accept the contracted land of the others are allowed to provide the latter with certain amounts of food grain at lower prices.

Farmers' investments in land shall be rationally compensated. Through democratic consultations with commune members, we may work out such specific methods as grading or evaluating plots of land and using the results as reference standards for compensating investments when the right to use land is transferred. In case the land fertility is reduced by plundering methods of use, rational standards of compensation shall also be prescribed. Uncultivated land and deserted land shall be promptly taken over by the collective.

Both land for personal use and contracted land are forbidden to be sold, rented and used for house sites and other non-agricultural purposes.

2. Funds owned by farmers or collectives are allowed to move freely or in an organized way to any places. Farmers are encouraged to invest in enterprises or subscribe to a number of shares of enterprises; based on the principle of voluntary participation and mutual benefit the collectives and farmers are encouraged to pool their funds in jointly establishing enterprises and special support shall be given by establishing development undertakings. The state protects the legal rights and interests of investors.

3. As to the question of hiring workers in the rural areas, there are stipulations in principle in the Central Committee's Some Questions on Current Rural Economic Policy that shall be continuously implemented. Administrative departments of industry and commerce shall make registration and issue certificates on time and strengthen management. The related departments shall conscientiously engage in investigations and study so as to work out specific policy stipulations when the conditions mature.

Some of the enterprises that hire more workers than the prescribed number adopt systems different from those of private enterprises such as putting aside a certain proportion of the after-tax profit as collective common property, setting limits to the amounts of dividends and the proprietors' incomes, and giving a proportion of the profit to the workers as labour returns. Thus, these enterprises have factors of co-operative economy in varying degrees; they shall be helped continuously to improve these systems and raise them to a higher level and may not be treated as enterprises operating under capitalist employment of workers.

Although some commune- and production brigade-run enterprises are operating under contracts signed with managers and adopt various forms of recruiting and hiring workers, they still belong to the co-operative economy

and shall not be considered private hiring of workers as long as they are managed according to the following principles: (1) The enterprises are owned by the communes and production brigades and keep sufficient sums of depreciation of fixed assets and public accumulation at a certain proportion; (2) the communes and production brigades make the policy decisions on such major matters as direction of things being produced, disposal of public fixed assets and the basic principles of distribution; (3) the enterprises turn over a prescribed part of their profits to the communes and production brigades; (4) the managers enjoy full power in conducting the business of enterprises only within the scope delegated by the communes and production brigades; (5) practising distribution according to work and democratic management, fixed rates of dividends to individual investments, higher rewards for managers which are not far above those of workers.

4. The rural specialized households that have emerged on the basis of the contracted responsibility system linking remuneration with output take the lead in prospering rich through industrious labour, developing commodity production and improving production techniques; they are the new-born things in rural development and shall be esteemed, cared and given active support. The most effective support is to provide them with the necessary social services and satisfy their needs for information, supply and marketing and technical progress. In places where conditions exist, the households specializing in grain production or development production may be given necessary economic encouragement through balancing the incomes from various sources within the co-operative economy. In some co-operative economic organizations that practise "unified management, contracted specialized jobs and distribution based on quotas," they adopt such forms of division of work as specialized households as well as specialized teams and groups which have played a positive role in developing commodity production. Their experiences shall be summed up, improved and raised to a higher level.

As the development of specialized households constitutes a stage in the economic development and the economic conditions are very uneven from place to place, it is inappropriate to prescribe rigidly unified standards of these households and targets for their development, and they shall receive moderate material rewards and suitable support in funds.

It is necessary to encourage different forms of combining techniques,

labour, funds and other resources so that in the course of producing commodities the farmers can carry forward their strong points and gradually form suitable scales of operations.

5. After the separation of government administration from commune management, the rural economic organizations shall be established according to the needs for the growth of production and on the basis of the free will of the masses; their forms and scales may be diverse and shall not be one model arbitrarily imposed from above.

Co-operative economic organizations serving a local area based on collective ownership of land shall generally be established to improve the system that combines unified with decentralized management. They may be called agricultural co-operatives, economic associations or other names chosen by the masses; their scope may cover a village (production brigade or joint production brigade) or a production team; they may be independent from villagers' committees or at the same time perform the latter's functions in the names of villagers' committees. The organization covering a village shall not requisition the assets of the former production teams and shall properly handle the debt and creditor's rights. Besides, the farmers can go beyond the limits of localities and voluntarily join or form various forms and scales of specialized co-operative economic organizations.

The original commune organizations which have become economic entities shall be allowed to develop fully their functions of economic organizations; the original commune organizations which are economically weak may establish different forms of joint economic organizations or co-ordinating service organizations according to their specific conditions and the wishes of the masses; those places which lack the necessary conditions may not establish any of these organizations. The relations between these organizations and the co-operative economic organizations serving a local area and other specialized co-operative economic organizations are those of equality and mutual benefit or co-ordination and guidance and not those of administrative subordination or transition from one level to another.

IV

Strengthen social services and promote the growth of rural commodity production.

It is necessary to mobilize and organize the strength from various sources in gradually establishing a relatively complete service system for commodity production so as to meet the farmers' needs in techniques, funds, supply and marketing, storage, processing, transport, market information and assistance to operation. This is a very urgent task. It is the basis for the growth of commodity production, a working link necessary to the co-operative economy, and also an important channel for the state to carry out planned guidance of the rural economy.

1. All departments and trades of the state economy shall give powerful assistance to agriculture and pay special attention to supplying agriculture with good-quality and inexpensive industrial products for farm use and ensuring the continuous improvement of agricultural production conditions.

All the state enterprises and undertakings in the rural areas such as farms, forestry centres, ranches, fisheries, industrial and mining enterprises, and units in connection with water resources and hydropower, geological prospecting and dissemination of scientific experiments shall learn from the People's Liberation Army, strengthen links with their nearby farmers, and together with the local farmers build the material and spiritual civilizations in the countryside in accordance with the principle of mutual benefit and through the provision of various services needed by local farmers, thus making new contributions to promoting the growth of commodity production, strengthening worker-farmer alliance and building a new socialist countryside. The leading organs of these enterprises and undertakings shall make specific arrangements for these purposes.

2. The reform of the system of supply and marketing co-operatives shall be carried out in depth and the co-operatives shall really become the co-operative commerce collectively owned by the farmers; this is the farmers' demand and also the need for the development of the co-operatives themselves. It must be understood: The more the character of co-operative enterprises owned by the masses is restored and the firmer the idea of serving farm production and farmers' living is established, the supply and marketing co-operatives will be more attractive to the masses, better perform their special functions in rural commodity circulation and completely fulfil the tasks entrusted by the state and demanded by the farmers. Otherwise, the co-operatives will gradually wither until they lose the significance of their

independent existence. Therefore, supply and marketing co-operatives at all levels shall practise independent accounting and be responsible for their own profits or losses, and their related systems shall be reformed according to the standards of co-operative enterprises. After the reform of the co-operatives, their scope of operation must be properly enlarged and their methods of operation must become more flexible. The purchasing units of specialized state corporations in the rural areas shall also follow the principle of providing convenience for the masses in fulfilling their planned purchases, and besides direct purchases in the nearby places, they shall make the widest possible use of supply and marketing co-operatives to purchase for them. The supply and marketing co-operatives shall actively expand the items in the service of production and people's daily necessities and gradually become rural comprehensive service centres. It is necessary to develop various forms of joint agriculture-industry-commerce operations, foster production, expand markets, help raise output and accelerate sales, thus integrating the interests of supply and marketing co-operatives with those of the farmers and turning the co-operatives into economic ties between the state and the farmers.

3. The credit co-operatives shall be reformed into real mass organizations of co-operative banking and independently develop their business of accepting deposits and issuing loans in line with the state's banking policy and under the leadership and supervision of the Agricultural Bank. Rural deposits shall be first used in the rural areas and more loans may be issued when there are more deposits. On the premise of ensuring the needs of agricultural loans, the credit co-operatives may issue loans to rural industry and commerce. The interest rates of loans may float.

The Agricultural Bank shall make big efforts to improve its operation and do a better job in the service of providing rural loans.

4. The co-operative economic organizations serving a local area shall shift the emphasis of their work to providing service for farmer households. They shall first do a good job in the management of land and production responsibility contracts; they shall ensure good management of water conservancy facilities and farm machines, organize plant protection and pest prevention, disseminate science and technology, build water conservancy and other capital construction projects on farmland and offer other services needed before or after production. They shall rely on their own resources,

but it is more important for them to foster the growth of all sorts of specialized service households and establish ties and co-ordinate their work with such enterprises and undertakings as supply and marketing co-operatives, credit co-operatives, joint agriculture-industry-commerce companies, service companies of diversified operations, the supply and marketing sections of commune and production brigade enterprises, trading warehouses, stations for dissemination of agricultural and forestry techniques, livestock breeding and veterinary stations, farm machinery stations and management guidance stations so as to better serve the farmer households.

5. Service is also an exchange of labour and should generally get remunerations, and farmers may choose its use of their own free will. Only in this way can the service be continued and kept efficient and its quality ensured.

V

Circulation is a necessary link in commodity production, and raising production must promote circulation. Now the non-correspondence between circulation and the growth of rural commodity production is becoming increasingly outstanding. It is essential to adhere to the principle of the leading role of the planned economy and the supplementary role of market regulation and the principle of making concerted efforts by the state, collective and individual, continue to reform the rural commercial system, and further invigorate the rural economy. In the course of this invigoration, management shall be strengthened to avoid the possible emergence of negative phenomena.

1. Continue to adjust the purchase and sales policy of farm and sideline products. With the growth of production and improved market supply, the varieties and amounts of planned and prescribed purchases will be continually reduced. Fresh and live products shall be managed as flexible as possible and have rational seasonal and regional price differences so that the flexible prices will boost output and avoid losses caused by rot; for the purpose of ensuring exports and supplies in big cities, specialized production bases may be established or the needed products may be exchanged with the means of production at relatively low prices, and both will be on a trial basis. The prices of products belonging to the third category and those not

included in the planned and prescribed purchases shall be really set free, and the state commercial enterprises and the supply and marketing co-operatives are allowed to fix flexibly the purchasing and selling prices according to rational rates of differences between their purchasing and selling prices, thereby enabling them to take part in market competition and regulation. Every effort shall be made to reduce the links in operation, and direct flow of goods from the producing places to the selling places organized.

2. Improve the purchase methods of farm and sideline products. To guide the farmers to planned production, the quotas of planned and prescribed purchases of farm and sideline products must be fixed with the production units and remain unchanged for several years; large purchases of products in the third category and other products not included in the plans shall also be ensured by signing contracts with farmers before the start of production. The purchase and sales contracts shall not be arbitrarily changed after they have been signed by both sides. The method of supplying means of production such as chemical fertilizers and diesel oil shall also be improved conscientiously.

Producers' associations may be established in concentrated production areas of major products and they may elect representatives to exchange information and co-ordinate relations with the local purchasing units as well as solve problems of mutual interest.

3. The cold storages, warehouses and the infrastructure such as transport and communications facilities needed by commodity circulation shall be built by relying on the resources of the state, collective and individual and pooling the funds through various methods. State and local finance shall make suitable arrangements for this kind of construction. State commercial enterprises and supply and marketing co-operatives shall invest a certain proportion of their after-tax profits in building such projects. Whoever builds these facilities for commodity circulation will operate them and get their benefits, and the state shall give special tax consideration and preference.

Efforts will be made to develop rural water-borne and land transport to solve the question of commodity stagnation. Special attention shall now be paid to solving the question of grain transport and sales. State transport departments shall make big efforts to improve their work and make use of the transport potential. At the same time, it is necessary to develop

vigorously the collective and individual transport establishments and advocate the organization of transport co-operatives.

As an important means of transmitting commodity information, rural post and telecommunications shall be continuously developed and they shall gradually form a widespread and relatively flexible network of communications.

While continuously running well the fairs of farm products, big and medium-sized cities shall establish wholesale markets of farm and sideline products in a planned way; wherever conditions permit, they shall establish trade centres of these products to communicate market information and organize transactions of futures. This shall be incorporated into city construction plans.

4. Suggest that the State Council instruct the departments concerned to form a special group to conduct systematic investigation and study of the circulation and price systems and put forward proposals for their fundamental reforms.

V1

Prevent the irrational collection of money from the farmers, reduce their extra burdens and ensure the rational rural expenditures for public purposes. All the work undertaken by the people with government financial assistance such as rural education, family planning, militia training, care for the disabled servicemen and family members of revolutionary martyrs and servicemen, and transport which are arranged by the departments under the Party Central Committee and the State Council shall be carefully examined and reformed one by one. Their future expenditures shall be fixed under their respective items in the budget submitted by the township people's congress in accordance with farmers' economic conditions and approved by the county people's government; the sum will be used by the primary units in a unified way and approved every year; it shall not be increased at will in the course of the year or deducted from collective reserves as before. The maximum amount of these expenditures shall be decided by the provinces, autonomous regions and municipalities directly under the Central Government according to their specific conditions. Apart from the approved sums, no department shall collect any additional expenditures from the farmers and the tendency of doing some work in an "extensive"

way must be resolutely prevented. Anything the masses cannot afford to do should not be imposed on them.

The retention of expenses within co-operative economic organizations shall also be duly made in accordance with their economic conditions and through democratic consultations.

Both the non-productive expenditures and the number of cadres shall be reduced. Subsidies to cadres shall be rational.

It is inappropriate to allocate the above-mentioned expenditures according to the area of farmland without exception; the local people may discuss and decide the proper ways of collection.

The communes, production brigades and production teams that have not checked up their finance shall strive to complete the work in 1984.

VII

With the growing division of work and trade in the rural areas, more and more people will leave farmland operation and switch to the production of forestry, livestock breeding and fishery and a relatively large proportion of people will work in small industries and service trades in small towns. This is an inevitable historic progress which creates conditions for agriculture to concentrate on production in breadth and depth and for improving the distribution between population and industry. Unless the situation of "800 million farmers feeding the nation" has been changed, the farmers cannot prosper, the nation cannot advance and the four modernizations cannot be realized.

The present emerging fodder, food, building and building materials, and small energy industries that are most urgently needed by society and can be developed at a relatively fast pace shall be first developed in a planned way; the departments concerned and localities shall give active guidance and assistance. Urban technical personnel will be encouraged to go to the rural areas and the flow of talented people and techniques between different places and establishments will be advocated and organized, thus increasing the technical force for rural industrial expansion.

The existing commune and production brigade enterprises constitute the mainstay of rural economy and some of them are indispensable to large urban industries. They need to undergo continued consolidation, establish

and improve the responsibility system, improve management and operation, adopt appropriate techniques and raise economic results; all this will promote their healthy development. The form of responsibility system should be decided according to the size, production features and operation of an enterprise, and the phenomena of monopolizing contracts, contracting at reduced prices or subcontracting by a small number of people holding power should be prevented.

Small household industries, industries run by supply and marketing co-operatives and industries jointly run by state enterprises and communes or production brigades all have their own irreplaceable economic functions and significance; they should sum up their experiences and strive to achieve good operations.

Rural industries shall make full use of local resources, face both domestic and foreign markets, particularly the vast rural market, so as to develop their strong points and realize concerted growth with urban industries.

Proper concentration of rural industries on market towns may save on the investments in energy, transport, warehouses, water supply and drainage and stimulate the growth of culture, education and services, thereby gradually building these towns into economic and cultural centres of rural areas. The building of market towns needs careful planning and economy in the use of land. The provinces, autonomous regions and municipalities directly under the Central government may choose some market towns and develop them on a trial basis in 1984, and permit settlement of farmers in these towns who engage in industry, trade and services and solve their supply of food grain.

VIII

The underdevelopment of forestry, livestock breeding and fishery, and the insufficient supply of their commodities must be changed. Flexible policy will be further adopted to accelerate the development of mountain areas, water surfaces and pastures. Planting grass and trees and improving pastures will be encouraged, and agriculture, forestry and livestock breeding will be co-ordinated with one another to promote their growth; it is essential to encourage the breeding of aquatic products, protect natural resources and

simultaneously undertake breeding and catching. More sources of food supply will be opened, ecological environment will be improved, and the economic and cultural levels in the areas inhabited by national minorities and poor areas will be gradually raised.

Continue to implement the Decision of the Central Committee of the Communist Party of China and the State Council on Some Questions Concerning the Protection of Forests and the development of Forestry. In carrying out the unified plan of timber felling in collective forest areas, appropriate amounts of timber should be left to the communes and production brigades. This part of timber, timber obtained from improvement of forest, timber left on mountains and small diameter timber as well as their semi-finished products shall be exchanged for outside grain and articles or sold by agents in a unified way through the county forestry departments or their entrusted establishments; the largest part of the income shall be given to farmers engaged in forestry.

According to the arrangements of the state or the collectives, whoever plants grass and trees on barren mountains, sandy land and sandy banks shall have them and this will remain in force for ever; the grass and trees may be inherited or transferred at certain prices. Felling trees shall abide by the related regulations and the owners have the right to dispose the trees and their products. The deserved interest of specialized households that contract to improve small river valleys shall be even more protected.

Purchase quotas of animal products in livestock breeding areas had better be fixed by signing contracts and additional amounts may be bought and sold at negotiated prices. In places where the conditions exist, it is permissible to exchange directly such industrial raw materials as wool and hides for industrial articles and to fatten animals by moving them to other places.

While carrying out the responsibility system of herds, the livestock breeding areas shall also determine the pasturage and practise the responsibility system of using and managing pastures. Herdsmen are encouraged to undertake capital construction in animal husbandry, protect pastures, improve grass strains, enhance grass yields, balance the supply of grass with the number of animals and raise the marketable rate of animal products.

Consideration shall be shown to those who engage in sea water and

fresh water breeding and processing aquatic products with regard to the purchase of their products, the issuance of credit, the supply of fry and fodder, and technical service.

State farms shall continue to carry out reforms, practise the contracted responsibility system with remuneration linked to output, and smoothly run household farms. State farms which have a relatively high level of mechanization and are not suited to household operation through contracts may sign responsibility contracts with groups of farm machine operators. It is necessary to advocate the co-operation between joint reclamation-agriculture-industry-commerce enterprises and the nearby farmers in developing industries of processing farm products and forming other economic combinations; these efforts will not be restricted by the division of commodity production or areas and departments.

IX

Strengthen the leadership in rural work, enhance the quality of cadres and train personnel for rural construction.

Our countryside is in a historic process of transformation and the whole Party from top to bottom faces a task of study once again. Cadres at all levels and of all departments must all guard against pride and haste, proceed from facts, undertake investigation and study in a down-to-earth way, make efforts to become familiar with economic and natural laws, and achieve a tremendous transformation and advance in their ideology, ability and method and style of work.

Now rural work demands not only attention to the targets of a few major products but emphasis on the comprehensive development; it calls for increased output as well as ways of guiding the farmers to learn business accounting and seek practical economic results; it needs not only concern for production but also for the links of exchange, distribution and consumption; it must show consideration to both agriculture and the developments of all sectors of the national economy and culture, education, science, technology, public health and physical culture.

We need not only qualified leading members but also large numbers of producers and managers with new qualities. Starting from 1984, universal

training of personnel will be carried out in a planned way throughout the country. Education in politics, policy, science and technology, and management and operation will be combined, the goal is to train the principal cadres and different types of technical personnel at grass-roots level in a period of three or five years, to train at the same time a part of the rural educated young people, members of specialized households and skilled rural people, and to select the outstanding ones from them to attend colleges and secondary technical schools after having passed the examinations and come back to their hometowns after the completion of study. The county shall be the unit to work out training plans, establish training centres and set up various specialized schools and training classes. Attention should be paid to discovering fine persons of talent and boldly promoting them to positions of grass-roots leadership.

X

The more the Party's policy in the rural areas becomes flexible and the commodity economy develops, the more the need to strengthen the rural ideological and political work and the cultural and educational work. Party organizations at all levels should fully understand that to pay attention to both the socialist material and spiritual civilizations at the same time is our Party's long-term strategic principle. There is no need to put forward the slogan of eliminating spiritual pollution in the rural areas, but this is by no means a pretext to lessen rural ideological and political work. In recent years feudal superstitions, stealing and gambling, dissemination of pornographic books and periodicals and extremely unhealthy theatrical performances also became serious in some rural areas, and effective measures must be taken to deal with them. A clear line of demarcation shall be drawn in our work between economic activities permitted by the policy and unhealthy tendency and between farmers' actions that generally deviate from the economic policy and economic crimes. Economic problems shall be mainly solved by better guidance and effective management, and ideological problems by positive education; all of them shall not be crudely handled. At the time of continuously improving the farmers' economic position, it is essential to carry out education in Marxism-Leninism and Mao Zedong Thought,

patriotism and socialism; promote the five stresses (stress on decorum, manners, hygiene, discipline and morals); the four points of beauty (beauty of the mind, language, behaviour and the environment); and the "three loves" (love for the motherland, socialism and the Communist Party) as well as the activities to build civilized villages and enterprises and five-good families (five-goods: diligence in work and study, consideration for the family members as well as neighbours, careful family planning and attention to children's education, observance of law and discipline, and courteous behaviour in public), reinforce the farmers' ability to resist the corrosion by capitalist and feudal ideas, and ensure the implementation of the Party's policies and fulfilment of various economic tasks.

The rural Party members and cadres have in recent years contributed to raising the prestige of the Party among the farmers by carrying out the Party's policies in an exemplary way, taking an active part in labour and maintaining close contact with the masses. But there are also a small number of Party members and cadres who take advantage of the adoption of flexible policies to seek private gains by using their power, claiming public goods as their own and encroaching upon the interest of the collectives and the masses. Their actions have aroused strong dissatisfaction among the masses. These actions are incompatible with the names of Party members and cadres and those who have committed such acts must be educated to correct their actions quickly; those who stubbornly refuse to correct must be dealt with severely.

To strengthen the building of rural Party organizations, it is necessary to carry out Party consolidation according to the Central Committee's arrangements, purify Party organizations, carry forward the Party's fine traditions, enhance the militant spirit of Party organizations and change the weak and lax conditions. The Party organizations shall lead the Party members, Communist League members and activists in socialist construction and unite with the hundreds of millions of farmers in building the new socialist countryside.

Decision of the Central Committee of the Communist Party of China on Reform of the Economic Structure

(Adopted by the 12th Central Committee of the Communist Party of China at Its Third Plenary Session On October 20, 1984)

The Third Plenary Session of the 12th Central Committee of the Communist Party of China, having analysed the current economic and political situation in China and summed up the experience, both positive and negative, in socialist construction, and particularly that of reform of the economic structure in the urban and rural areas over the past few years, holds the consensus view that, proceeding from the overall need to build socialism with Chinese characteristics by integrating the basic tenets of Marxism with actual conditions in China, we must go a step further with the policy of invigorating the domestic economy and opening to the outside world and accelerate the restructuring of the national economy as a whole, with the focus on the urban economy, so as to create a new, better situation for our socialist modernization.

1. Reform Is a Pressing Necessity in the Current Developments in China

China has prepared and practised reform of its economic structure for several years. The Third Plenary Session of the Party's 11th Central Committee, in deciding to shift the focus of the work of the whole Party to economic construction, stressed the imperative need to reform the economic structure for China's socialist modernization. The Party made tremendous efforts after that session to set things to rights and readjust the national economy, and carried out reform mainly in the rural areas. The 12th Congress, basing itself on the historic change consequent upon the rectification of the guiding ideology of the Party, set the explicit task of reforming the economic structure systematically. It pointed out that this reform would provide an important guarantee for keeping to the socialist

road and achieving socialist modernization. In the past two years, and particularly since the beginning of this year, the Party Central Committee and the State Council have taken a number of policy decisions and issued major directives, stimulating reform in various fields in depth and breadth.

Our economic restructuring scored great achievements first in the countryside. Agricultural production, which worried us for so long, has been enabled to develop vigorously in a very short time, displaying the great vitality of our socialist agriculture. This is due fundamentally to a bold break with "left" ideas. We have changed the structure of China's rural economy that was incompatible with the development of the forces of production in agriculture and introduced across the countryside the system of contracted responsibility for production with remuneration linked to output, bringing into play the enormous initiative of the 800 million farmers for building socialism. The rural reform is going forward and the rural economy is moving towards specialization, large-scale commodity production and modernization. Therefore, there is an urgent need to unclog the channels of circulation between town and country, expand the market for the increasing amount of agricultural products, and satisfy the rising needs of the farmers for manufactured goods, science and technology as well as culture and education. Our successes in rural reform and the demands on the cities by the growing rural economy provide highly favourable conditions for restructuring China's entire national economy, focusing on the urban economy.

Such restructuring has been repeatedly explored and tested in recent years, and a number of important measures have been taken. This has yielded marked results and important experience, and economic life has been invigorated to an extent unknown for many years. Our urban reform is only in the initial stage, however, and defects in the urban economic structure that seriously hinder the expansion of the forces of production are yet to be eradicated. The economic effectiveness of our urban enterprises is still very low, the huge potential of our urban economy is far from being fully tapped, and there is serious loss and waste in production, construction and circulation. Expediting reform is a prerequisite for the growth of the urban economy. The cities are economic, political, scientific, technological, cultural and educational centres where modern industry and members of the working class are concentrated, and they play the leading role in socialist

modernization. Firm, systematic reform is the only way that the cities will play their due leading role of invigorating the urban economy and in livening the domestic economy as well as opening to the outside world and promoting a healthier and faster development of the national economy as a whole.

It should also be noted that emerging on a global scale is a new technological revolution which offers both new opportunities and new challenges to our economic growth. This means that our economic structure must become better able to utilize the latest scientific and technological achievements, promoting scientific and technological advancement and generating new forces of production. Reform, therefore, is all the more imperative.

Political unity and stability in China are ever more consolidated; major successes have been achieved in economic readjustment; the economy has been growing steadily; the major targets of the Sixth Five-Year Plan (1981-85) have been fulfilled ahead of schedule; and the country's financial situation has improved gradually. This has made all comrades in the Party and the people of all nationalities much more confident about socialist modernization. Their wish to speed up reform of the economic structure is much stronger. In particular, the sound all-round consolidation of Party organizations at the central and the provincial, autonomous regional and municipal levels, has set, or is setting, to rights the ideas guiding all fields of work in modernization and has given, or is giving, the reform a clear orientation. Conditions are now ripe for all-round reform of the economic structure. We both can and must raise and expound, in a rather systematic way, a number of major issues related to the reform so as to achieve unity of thinking and enhance it among all comrades in the Party (particularly among leading Party cadres). We must make the reform more effective and give fuller play to the superiority of socialism. The Central Committee hopes and is confident that the Third Plenary Session of the 12th Central Committee will play a historic role in drawing up a blueprint for an all-round reform, quickening its tempo and stimulating the restructuring of the entire national economy with the urban economy as the focus, just as the Third Plenary Session of the 11th Central Committee did in setting things to rights and raising the task of restructuring the economy and promoting rural reform.

11. Reform Is Aimed at Establishing a Dynamic Socialist Economic Structure

The founding of the People's Republic of China and the establishment of the socialist system marked the end of the century-old history of our people's misery in a semi-feudal and semi-colonial society. The system of exploitation was abolished and the people of all nationalities became real masters of their country. The people of the whole country, led by the Chinese Communist Party, have established an independent and fairly comprehensive industrial as well as national economic system through arduous efforts and have scored tremendous successes inconceivable in the old China, thus laying the indispensable material foundation for building China into a powerful and prosperous modern socialist country with a high level of democracy and civilization. The people of all our nationalities have come to realize through long historical experience that only socialism can save China.

The founders of Marxism predicted that by eliminating the exploitation of man by man, socialism would make possible a higher rate of labour productivity and a faster expansion of the forces of production. The profound changes that have taken place in the 35 years since the founding of the People's Republic are an initial demonstration of the superiority of the socialist system. But this superiority, it must be pointed out, has yet to be brought into full play. Apart from historical, political and ideological causes, a major economic cause for this is a rigid economic structure that cannot meet the needs of the growing forces of production. Following are the major defects of this structure: No clear distinction has been drawn between the functions of the government and those of the enterprise; barriers exist between different departments or regions; the state has exercised excessive and rigid control over enterprises; no adequate importance has been given to commodity production, the law of value and the regulatory role of the market; and there is absolute equalitarianism in distribution. This has resulted in enterprises lacking necessary decision-making power and the practice of "eating from the same big pot" prevailing in the relations of the enterprises to the state and in those of the workers and staff members to their enterprises. The enthusiasm, initiative and creativeness of enterprises and workers and staff members have, as a result, been seriously dampened and

the socialist economy is bereft of much of the vitality it should possess.

China gradually established a unified and centralized economic structure on a nationwide scale in the early post-liberation days and during the First Five-Year Plan (1953-57) when the country faced the heavy tasks of unifying its financial and other economic work, carrying out socialist transformation of capitalist industry and commerce and undertaking large-scale, planned economic construction. However, control then was not very rigid in many aspects and the measures and steps we took for socialist transformation were based on China's actual conditions and were highly creative. But with the basic completion of socialist transformation and the ever-growing scale of economic construction, the measures taken to restrict and transform capitalist industry and commerce no longer suited the new situation. The defect of excessive and rigid control gradually became manifest in some aspects of the economic structure. The Central Committee and especially the comrades in overall charge of economic work, at the Eighth National Congress of the Party in 1956 as well as before and after, perceived this problem and raised some suggestions for correction. However, our party was, after all, inexperienced in guiding socialist construction. Certain rigid concepts about socialism developed over the years that were not in keeping with the actual conditions in China. The influence of the "left"-deviationist errors in the Party's guiding ideology after 1957, in particular, resulted in the various correct measures aimed at enlivening enterprises and developing socialist commodity economy being regarded as "capitalist." As a result of all these, the problem of overconcentration in the economic structure long remained unsolved and, what is more, became more and more serious. It is true that we tried to delegate power to lower levels on a number of occasions. But this was limited solely to readjusting the administrative power of the central and local authorities and of the different departments and regions. The critical issue of giving enterprises decision-making power was not dealt with. We therefore failed to break with outmoded conventions.

To bring about a radical change in the economic structure that hinders development of the forces of production, we must conscientiously sum up China's historical experience and study the concrete conditions and requirements for economic growth. In addition, we must draw on the world's advanced methods of management, including those of developed

capitalist countries, that conform to the laws of modern, socialized production. In line with the Party's consistent principle of integrating the fundamental tenets of Marxism with China's actual conditions and the principle of adopting a correct approach towards foreign experience, the Central Committee holds that we must emancipate our minds more, follow our own road and build a socialist economic structure with Chinese characteristics that is full of vigour and vitality so as to promote the growth of the forces of production. This is the fundamental objective of our present reform.

The basic contradiction in socialist society remains that between the relations of production and the forces of production, between the superstructure and the economic base. Reform of China's economic structure means reforming, on the premise of adherence to the socialist system, a series of interrelated links and aspects of the relations of production and the superstructure that are not suited to the development of the forces of production. As a form of self-improvement and development of the socialist system, this reform is to be carried out under Party and government leadership in a planned, systematic and methodical way. It should serve to advance, and not to impair, social stability, expansion of production, improvement of the people's living standards and the growth of state revenue. The essential task of socialism is to develop the forces of production, create ever more social wealth and meet the people's growing material and cultural needs. Socialism does not mean pauperism, for it aims at the elimination of poverty. We must, with firm determination and maximum tenacity, concentrate on economic development and modernize China's industry, agriculture, national defence and science and technology. This is the inevitable trend of history and the wish of the people. In carrying out reform, all Party comrades must unfailingly grasp the above-mentioned basic concept of Marxism and set whether the reform facilitates this task as the most important criterion for assessing the success or failure of all reforms.

III. Invigorating Enterprises Is the Key to Restructuring the National Economy

The chief and direct responsibility for industrial production and construction and commodity circulation falls on urban enterprises. They

constitute the main force spurring the growth of the forces of production and encouraging economic and technological progress. China now has over one million urban industrial, building, transport, commercial and service enterprises, with a total work force of more than 80 million. The taxes and profits delivered by urban industrial enterprises alone account for over 80 percent of the state's revenue. This means that the enthusiasm, initiative and creativity of the urban enterprises for production and operation as well as their 80 million workers and staff members must be brought into full play, in other words, the urban enterprises must have great vitality. This has a vital bearing on basic improvement of the national economy as a whole and of the state's financial and economic situation and on quadrupling China's annual industrial and agricultural output value by the end of the century, a task set by the Party's 12th National Congress. Socialism with Chinese characteristics should, first and foremost, be able to instil vitality into the enterprises. In essence, the drawbacks of our present economic structure are precisely the lack of vitality in our enterprises. Therefore, the key to restructuring the national economy, with the focus on the urban economy, is invigoration of enterprises, particularly the large and medium-sized enterprises owned by the whole people.

With this key in mind, we must handle two types of relationships satisfactorily. That means we should extend the decision-making power of enterprises owned by the whole people by establishing a correct relationship between them and the state, and safeguard the status of the workers and staff members as masters of the enterprises by establishing correct relationships between them and their enterprises.

One of the main reasons why the state exercised excessive and rigid control over enterprises in the past was to equate the concept of their ownership by the whole people with the concept of their direct operation by the state institutions. As Marxist theory and the practice of socialism have shown, ownership can be duly separated from the power of operation. To make the economic activities of all enterprises conform to the overall requirement of economic growth, the socialist state institutions must manage, inspect, guide and regulate the activities of the enterprises, as is necessary, through planning and by economic, administrative and legal means; it must use taxation and other means to concentrate in its treasury that part of enterprises' net income which should be used by the state in a

unified way; it must designate, appoint and remove the principal leading members of the enterprises or approve their employment and election; and it must decide on the establishment of enterprises, their removal to other places, their switching over to other lines of products, their merger with others, suspension of operations, or closing down. However, since social demand is very complex and in a state of constant flux, since the conditions in enterprises differ in a thousand and one ways and since the economic links between enterprises are complicated, no state institution can know the whole situation fully and cope with everything in good time. If the state institutions were to directly administer and manage various kinds of enterprises owned by the whole people, it would be very hard to avoid serious subjectivism and bureaucratism, with a consequent suppression of enterprise vitality. Therefore, on the premise of following the state plans and subjecting itself to state control, the enterprise has the power to adopt flexible and diversified forms of operation; plan its production, supply and marketing; keep and budget funds it is entitled to retain; appoint, remove, employ or elect its own personnel according to relevant regulations; decide on how to recruit and use its work force, and on wages and rewards; set the prices of its products within the limits prescribed by the state; and so on. In short, the enterprise should be truly made a relatively independent economic entity and should become a producer and operator of socialist commodity production that is independent and responsible for its own profit and loss and capable of transforming and developing itself and that acts as a legal person with certain rights and duties. This is the way to ensure both overall unity of the growth of the national economy as a whole and the diversity and flexibility of individual enterprises in production and management as well as their desire to make progress. Instead of weakening socialist ownership by the whole people, this will contribute to consolidating and improving it.

The well-spring of vitality of the enterprise lies in the initiative, wisdom and creativeness of its workers by hand and brain. When the status of the working people as masters of their own enterprise is guaranteed by its rules and regulations and when their labour is closely linked with their own material benefits, their initiative, wisdom and creativeness can be brought into full play. This has been vividly and convincingly proved by our experience in rural reform. In restructuring the urban economy, it is imperative to handle correctly the relationship of the workers and staff to

their enterprise so that they are its real masters and can work as such at their jobs. This will arouse their deep interest in the operation and effectiveness of their enterprise, so that their performance is closely linked with their social prestige and material benefits. Modern enterprise calls for centralized and unified leadership and direction of production and strict labour discipline. Because ours are socialist modern enterprises, in carrying out such centralized leadership and strict discipline, we must resolutely ensure the workers and staff and their elected representatives the right to participate in democratic management of the enterprise. Under socialism, there is unity between the authority of the enterprise's leadership and the status of the working people as masters of the enterprise and their initiative and creativity. This unity is a prerequisite for the proper, effective exercise of their initiative.

Correct relations between the state and the enterprise and between an enterprise and its workers and staff are the essence and basic requirement of the restructuring of the national economy as a whole with focus on the cities. Fulfilment of this basic requirement inevitably calls for reform of every aspect of the entire economic structure. This involves a whole range of reforms including planning, pricing, economic management by state institutions, and the labour and wage system. The Central Committee is of the opinion that these reforms should be carried out step by step in harmony with the inherent connections between the various links of the national economy, according to the degree of ripening of the subjective and objective conditions and in the right order of importance, urgency and feasibility, and that they should basically be accomplished in about five years. Specific plans will be drawn up separately to this end.

IV. Establish a Planning System Under Which the Law of Value Is Consciously Applied for Developing a Socialist Commodity Economy

Socialist society practises a planned economy on the basis of public ownership of the means of production. It can thus avoid the anarchy of production and cyclical crises characteristic of capitalist society and ensure that production constantly meets the growing material and cultural needs of the people. This is one of the fundamental indicators of the superiority of a

socialist economy over a capitalist economy. Since the founding of the People's Republic, we have practised a planned economy and concentrated vast financial, material and human resources on large-scale socialist economic construction, with tremendous achievements to our credit. At the same time, historical experience shows that the socialist planning system should be one that combines uniformity and flexibility. We must take into account China's vast territory and large population, the difficulty of drastically improving in a short period its poor transport conditions, its inadequate information facilities and the obviously uneven economic and cultural development of its various regions, and we must realize that because of China's rather undeveloped commodity production at the present stage, it is necessary to stimulate commodity production and exchange. In view of all this, it is all the more urgent for us to institute this planning system. If the actual conditions of our country are ignored and if we try to incorporate all economic activities into the plans and implement them by administrative orders alone in disregard of the importance of the economic levers and the market, then there will unavoidably be a discrepancy between the subjective guidelines for planning and objective conditions, with the plans seriously out of step with reality. After the October Revolution, Lenin expressed the idea when working out Russia's plan for electrification that "a complete, integrated, real plan for us at present = 'a bureaucratic utopia.'" "Don't chase it,"* he added. Although China's conditions today are vastly different from those of Russia at that time when its economy was in extreme difficulties, our practical experience has proved that this idea of Lenin's was not only applicable to the Russia of that day, it is also of lasting significance. We must be realistic and admit that for a considerably long time to come, our national economic plans on the whole can only be rough and elastic and that we can do no more than, by striking an overall balance in planning and through regulation by economic means, exercise effective control over major issues while allowing flexibility on minor ones. In this way, we will be able to ensure the appropriate proportions between the major economic branches and, in general, the proportionate and co-ordinated growth of the national economy.

In the reform of the planning system, it is necessary, first of all, to

* V.I. Lenin, *Collected Works*, Eng. ed., Progress Publishers. Moscow, 1966, Vol. 35, p.475.

discard the traditional idea of pitting the planned economy against the commodity economy. We should clearly understand that the socialist planned economy is a planned commodity economy based on public ownership, in which the law of value must be consciously followed and applied. The full development of a commodity economy is an indispensable stage in the economic growth of society and a prerequisite for our economic modernization. It is the only way to invigorate our economy and prompt enterprises to raise their efficiency, carry out flexible operations and promptly adapt themselves to complex and changing social demands. This cannot be achieved by relying only on administrative means and mandatory plans. Meanwhile, we must also realize that the extensive growth of a socialist commodity economy may also lead to certain disorder in production, and there have to be guidance, regulation and administrative control through planning. This can be achieved under socialist conditions. Therefore, a planned economy by no means excludes the application of the law of value and the growth of commodity economy; they in fact form a unity. It would be wrong to pose one against the other. The difference between socialist and capitalist economy, as far as a commodity economy and the law of value are concerned, lies not in whether these are still functioning, but in the difference in ownership, in whether there is an exploiting class and whether the working people are masters of the state, in the different purposes of the production, in whether the law of value can be consciously applied throughout society and in the different scopes of commodity relations. Under our socialist conditions, neither labour power nor land, mines, banks, railways and all other state-owned enterprises and resources are commodities.

In the light of historical experience and the practice since the Third Plenary Session of the 11th Party Central Committee, the basic characteristics of our planning system can be further summed up as follows: First, ours is on the whole a planned economy, that is, a planned commodity economy, not a market economy that is entirely subject to market regulation. Second, production and exchange completely subject to market regulation are confined mainly to certain farm and sideline products, small articles of daily use and labour services in the service and repair trades, all of which play a supplementary but indispensable role in the national economy. Third, our planned economy does not necessarily mean the predominance of

mandatory planning, both mandatory and guidance planning being its specific forms. Fourth, guidance plans are fulfilled mainly by use of economic levers; mandatory plans have to be implemented, but even then the law of value must be observed. To reform our present planning system in accordance with the above points, it is necessary, step by step and to an appropriate extent, to reduce the scope of mandatory planning and extend guidance planning. Mandatory planning will be applied to major products which have a direct bearing on the national economy and the people's livelihood and which have to be allocated and distributed by the state, as well as major economic activities that affect the overall situation. Other products and economic activities which are far more numerous should either come under guidance planning or be left entirely to the operation of the market, as the case may require. The focus of planning will be shifted to medium and long-term planning, and annual plans will be appropriately simplified. There should be a corresponding reform of the methods of planning. Full attention should be paid to economic information and forecasting so as to raise the scientific level of planning.

V. Establish a Rational Price System and Pay Full Attention to Economic Levers

Because the law of value was long neglected and because of various other historical reasons, there is much confusion in our present system of pricing. The prices of many commodities reflect neither their value nor the relation of supply to demand. This irrational price system has to be reformed. Otherwise it will be impossible to assess correctly the performance of enterprises, ensure the smooth circulation of goods between urban and rural areas, promote technological advances and rationalize the production mix and consumption patterns. This will result in an enormous waste of social labour and seriously hamper application of the principle of distribution according to work. As the decision-making power of enterprises grows, pricing will be increasingly important in regulating their production and operation. It is, therefore, all the more urgent to establish a rational system of pricing. The various aspects of the reform in economic structure, including planning and wage systems, depend to a large extent on reform of the price system. Pricing is a most effective means of regulation,

and rational prices constitute an important condition for ensuring a dynamic yet not chaotic economy. Therefore, reform of the price system is the key to reform of the entire economic structure.

Our present irrational price system finds expression mainly in the following: inadequate price differentials for a given product with diverse quality, irrational price ratios between different commodities, particularly the relatively low prices for some mineral products and raw and semi-finished materials; and the retail price of major farm and sideline products being lower than their state purchasing price. From now on, we must gradually redress this irrational situation.

The irrational system of pricing is closely related to the irrational system of price control. In readjusting prices, we must reform the over-centralized system of price control, gradually reducing the scope of uniform prices set by the state and appropriately enlarging the scope of floating prices within certain limits and of free prices. Thus prices will respond rather quickly to changes in labour productivity and the relation between market supply and demand and better meet the needs of national economic development.

As the reform of the price system affects every household and the national economy as a whole, we must be extremely prudent, formulate a well-conceived, feasible programme based on the growth of production and the capability of state finances and on the premise that the people's real income will gradually be increased, and then carry it out in a planned and systematic way. The principles guiding the reform are: First, we should readjust irrational price ratios on the basis of the exchange of equal values and changes in the relation between supply and demand, lowering or raising prices as the case may be. Second, when the prices of some mineral products and raw and semi-finished materials are raised, the processing enterprises must substantially cut down consumption so that the increased production cost resulting from the higher prices of such products and materials can be basically offset within the enterprises, with only a small part of the increase being borne by the state through tax reductions and exemptions. This will avoid a consequent rise in market sales prices of manufactured consumer goods. Third, in solving the problem of the state purchasing farm and sideline products at prices higher than their selling prices and in readjusting

the prices of consumer goods, we must adopt effective measures to ensure that the real income of urban and rural inhabitants does not go down as a result of price readjustments. Instead, with the growth of production and improvement in economic results, the pay of workers and staff members will have to be raised gradually. It must be widely publicized among the people that on the condition of developed production and ever greater abundance of goods, the reform of the price system and readjustment of various irrational price ratios carried out on our own initiative will never bring about a general and spiralling price rise. Such a reform is the urgent need for further developing production and accords with the fundamental interests of the consumers. All enterprises should achieve better economic results through efforts to improve management and operation and should never try to increase their income by price increases. It is absolutely impermissible for any unit or person to boost prices at will by taking advantage of the reform, deliberately generating a tendency towards a general rise in prices, disrupt the socialist market and harm the interests of the state and the consumers.

While reforming the price system, we should further improve the tax system and reform the financial and banking systems. The more the economy is enlivened, the more attention we should pay to macro-economic regulation and the more we should try to have timely grasp of economic trends so as to use pricing, taxation, credit and other economic levers better. This will help regulate such major proportional relations as those between aggregate social supply and aggregate social demand and between accumulation and consumption, regulate the direction of the flow of financial, material and human resources, regulate the industrial set-ups and the distribution of the forces of production, regulate market supply and demand, regulate external economic exchange, and so on. We have fallen into the habit of using administrative means to keep the economy functioning and have long neglected the use of economic levers for regulation. Economic departments at various levels, especially the departments in charge of comprehensive economic management, must take it as an important task to learn to use the economic levers and make this aspect the focus of our leadership over economic work.

VI. Separate Government From Enterprise Functions So That Government Organs Can Properly Perform Their Function of Managing the Economy

After the proletariat and the whole people take state power in their hands, it becomes a basic function of the state organs to lead and organize economic construction. Over the past 30 years or more since the founding of New China, our state organs have, on the whole, played a significant role in performing this function. But how the state organs, especially government departments, can better lead and organize economic construction to meet the needs of the national economy and social development still remains a question calling for effective solution. The functions of government for a long time were not separated from those of enterprises, which in fact became appendages of administrative organs, and the central and local governments took responsibility for many matters which were not really theirs and at the same time did not do well what they ought to do. This, plus the barriers between different departments or regions and the practice of endless wrangles, increased the difficulties in running enterprises. If this state of affairs were not changed, the enthusiasm of the enterprises and other grass-roots units could not be aroused, co-operation, association and competition between enterprises could not develop and a unified socialist market would not grow. Moreover, the role that government organs should play in managing the economy would be seriously weakened. So there is a pressing need to conduct reform in line with the principle of separating the functions of government and enterprises, streamlining administration and instituting decentralization in order to invigorate the enterprises and the national economy as a whole.

Practical experience over the years shows the following to be the principal functions of government organs in managing the economy: They should formulate the strategy, plans, principles and policies for economic and social development; work out plans for the exploitation of natural resources, for technological transformation and for the development of intellectual resources; co-ordinate the development plans of localities, departments or enterprises and the economic relations among them; arrange for the construction of key projects, especially those in energy, transport and the raw and semi-finished materials industries; collect and disseminate

economic information, learn to utilize economic means of regulation; work out economic regulations and ordinances and supervise their execution; appoint and remove cadres within a prescribed scope; administer matters related to external economic and technological exchanges and co-operation; etc. The performance of these functions requires immense efforts on the part of the governments at various levels. In the past some of the functions were not performed well and others not performed at all. As far as the relations between governments and enterprises are concerned, from now on government departments at various levels will, in principle, not manage or operate enterprises directly. As for the small number of government economic departments that have been entrusted by the state with direct operations and management of enterprise, they must also correctly handle their relations with the enterprises under them through simpler administration and decentralization so as to enhance the capacity of enterprises and other grass-roots units for independent management and avoid drawbacks that may arise from over-centralization. The national and local corporations are economic associations set up for better economic development and mutual benefit of enterprises concerned. They must be enterprises and not administrative organs, and must not follow old practices, but should master modern methods of scientific management.

After the functions of government and enterprises are separated, the central role of cities must be brought into full play and open and interconnected economic zones of various sizes gradually formed with support from cities, the large and medium-sized cities in particular. In this reform it is necessary to call the attention of all leading urban comrades to the need for the city governments to separate their functions from those of enterprises and achieve simpler and decentralized administration, and not to repeat the past practice of mainly depending on administrative means to control enterprises so as to avoid creating new barriers between departments or regions. City governments should concentrate on urban planning, construction and management; building public facilities; carrying out comprehensive ecological improvement; guiding and promoting the specialized co-operation of enterprises, their reorganization, association and technical transformation and the modernization of their management and operation; guiding and promoting a rational circulation of materials and commodities; improving cultural, educational, public health and social

welfare work and various services; promoting the building of a civilization with a high cultural and ideological level, and the fostering of better social conduct; and maintaining public order. Moreover, they should also work out satisfactory medium- and long-term plans for economic and social development based on the general requirements of developing the national economy and on local conditions.

The relationship between socialist enterprises is first of all one of co-operation and mutual support, but this by no means excludes competition. For a long time, people used to consider competition peculiar to capitalism. As a matter of fact, where there is commodity production, there is bound to be competition. The point is that the purposes, nature, scope and means of competition vary under different social systems. Competition between socialist enterprises is fundamentally different from that under capitalism where the law of the jungle prevails. On the basis of public ownership and subject to the control of state planning and laws, and for the purpose of serving socialist modernization, our enterprises are put to the test of direct judgment by consumers in the marketplace so that only the best survive. This will help to break the blockade and monopoly hampering the growth of production, lay bare the defects of enterprises quickly and stimulate enterprises to improve technology, operation and management. It will stimulate the economy as a whole and benefit socialism. As for some undesirable trends and unlawful acts that may appear in the course of competition, the relevant leading organs at various levels should keep a clear head and strengthen education and control and tackle such problems in real earnest.

More and more norms guiding economic relations and activities will have to be framed in the form of law in the restructuring of the economy and national economic development. State legislative bodies must produce economic legislation faster, the courts should make greater efforts to try economic cases, the procuratorates should strengthen their work in dealing with economic crimes, and the judicial departments should offer active legal services for economic construction.

The separation of the functions of government and enterprises as well as simpler and decentralized administration constitute a deep-going transformation of the socialist superstructure. When the structure changes, the organization and the style of thinking and work should also change. We

must unhesitatingly change the working style of government departments in accordance with the principles of serving the people and of streamlining, unification and efficiency and raise the competence of their functionaries. We must end the longstanding practice of leading organs making enterprises and units completely dependent on them, instead of serving the enterprises and other grass-roots units, and eliminate such bureaucratic maladies as organizational overlapping, overstaffing, vague delimitation of functions and endless wrangling. The leading organs at various levels will thus be able to orient their work towards promoting production, serving the enterprises and other grass-roots units, and helping build a strong and prosperous country and bring prosperity and happiness to the people.

VII. Establish Various Forms of Economic Responsibility System and Conscientiously Implement the Principle of Distribution According to Work

Experimental urban reforms in the past few years have amply demonstrated that the basic experience of the system for contracted responsibility in the rural areas is also applicable in the cities. Enterprises must specify in explicit terms the requirements for each work post and the duties of each worker and staff member and must establish various forms of the economic responsibility system with contracted jobs as the main content so as to invigorate the urban enterprises, raise the sense of responsibility of the workers and staff members and bring into full play their initiative, enthusiasm and creativeness. The basic principles of this responsibility system are a combination of responsibility, authority and benefit; the unity of the interests of the state, the collectives and the individuals; and the linking of the income of workers and staff members with their job performance. In applying rural experiences to urban areas, we must take into account the characteristics of urban enterprises. It is neither feasible nor necessary to transplant mechanically the specific measures of the rural areas. As the nature of trades and the size and production conditions of enterprises differ from one another, urban enterprises cannot follow a single model of responsibility system. Our comrades, leading comrades of enterprises in particular, should always proceed from reality and in the course of practice gradually work out concrete forms of the responsibility system suited to

their specific conditions. Then the contracted responsibility system will take root, blossom and bear fruit in the cities.

Modern enterprises have a minute division of labour, a high degree of continuity in production, strict technological requirements and complex relations of co-operation. It is therefore necessary to establish a unified, authoritative and highly efficient system to direct production and conduct operations and management. This calls for a system of the director or manager assuming full responsibility. Party organizations in enterprises should actively support directors in exercising their authority in giving unified direction to production and operations, guarantee and supervise the implementation of the principles and policies of the Party and the state, strengthen the Party's ideological and organizational work in enterprises, improve their leadership over the trade unions and Communist Youth League organizations and do effective ideological and political work among the workers and staff members. While the director assumes full responsibility, we must improve the system of congresses of workers and staff members and other systems of democratic management, give play to the authority and role of the trade union organizations and workers and staff members' deputies in examining and discussing major decisions to be taken by the enterprises, supervising administrative leadership and safeguarding the legitimate rights and interests of the workers and staff members. All of this expresses the status of the working people as masters of the enterprise. Their status is determined by the nature of the socialist enterprise and must in no way be neglected or weakened.

With the general replacement of profit delivery by taxes and the widespread establishment of various forms of economic responsibility in enterprises, the socialist principle of distribution according to work will be implemented more fully. An important step already taken in this respect is that enterprises decide on the amount of bonuses for their workers and staff members according to the results of enterprise operation, while the state only collects an appropriate amount of tax on the above-norm bonus from enterprises. In the future, adequate measures will be taken to better link wages and bonuses with the improved enterprise performance. In the enterprises, the difference between the wages of various trades and jobs should be widened, so as to apply fully the principle of rewarding the diligent and good and punishing the lazy and bad and of giving more pay for

more work and less pay for less work as well as to fully reflect the differences between mental and manual, complex and simple, skilled and unskilled, and heavy and light work. In particular, it is necessary to change the present remuneration for mental work which is relatively low. We should also reform the wage system in state institutions and public organizations in accordance with the principle of linking wages with responsibilities and achievements. While reform of the wage system in enterprises, state institutions and public organizations is under way, the reform of the labour system will be speeded up.

There has long been a misunderstanding about the distribution of consumer goods under socialism, as if it meant equalitarianism. If some members of society got higher wages through their labour, resulting in wide gaps in income, it was considered polarization and a deviation from socialism. This equalitarian thinking is utterly incompatible with scientific, Marxist views on socialism. History has shown that equalitarian thinking is a serious obstacle to implementing the principle of distribution according to work and that if it is unchecked, the forces of production will inevitably be undermined. Naturally, a socialist society must guarantee its members a gradual improvement in material and cultural life and their common prosperity. But common prosperity cannot and will never mean absolute equalitarianism or that all members of society become better off simultaneously at the same speed. If common prosperity were understood as absolute equalitarianism and simultaneous prosperity, not only would this be impossible, but such thinking would lead to common poverty. Only when some regions, enterprises and individuals are allowed and encouraged to get better off first through diligent work can there be a strong attraction and inspiration to the majority of the people. More and more people will be prompted to take the road of prosperity, one group after another. At the same time, we must provide social relief for the old, weak, sick, disabled and for widows, widowers, orphans and childless elders who cannot support themselves. We must aid those who have not yet become well-off and adopt special and preferential policies towards some old revolutionary base areas and minority nationality, remote and other areas where the economy is still very backward and give them the necessary material and technical assistance. The difference arising from the prosperity of some people before others is a difference in speed, with all members of society advancing on the road to

common prosperity. It is certainly not polarization, which means that a handful of people become exploiters while the vast majority fall into poverty. The policy of encouraging some people to get better off earlier accords with the law of socialist development and is the only road to prosperity for the whole of society.

We must never discard the fine tradition of working hard and building the country through diligence and thrift that was developed during the long period of our revolution and construction. In the new historical period this tradition chiefly means the spirit of working hard and defying all difficulties in dedication to the motherland and the people, practice of strict economy in production and construction, opposition to any act that squanders state materials and funds, and avoidance of erroneous policy decisions that result in waste. It should not be misconstrued as overlooking due growth in the people's level of consumption. According to the basic tenets of Marxism, production is the starting point and the predominant factor of all economic activities and determines consumption; but consumption also determines production in that the growth of consumption gives a strong impetus to creation of new social demands, opens up vast markets and encourages production. We must gradually bring about substantial increases in the pay of workers and staff members and in the people's level of consumption. This should be based on increased production, better economic results, a steady increase in state revenue and a correct proportion of accumulation and consumption. It is incorrect to put forward demands for consumption in excess of the capacity of current production. But it is likewise incorrect not to appropriately increase but keep restricting consumption that is well within the capacity of current production.

VIII. Work to Develop Diverse Economic Forms And Continue to Expand Foreign and Domestic Economic And Technological Exchanges

We must mobilize all positive factors if we are to achieve rapid growth in all fields of production and construction and make our country strong and prosperous and our people rich and happy at a fairly fast pace. Under the

guidance of state policies and planning, the initiative of the state, the collective and the individual should all be encouraged. We must work to develop diversified economic forms and various methods of management. And we must actively expand foreign economic co-operation and technological exchange on the basis of independence, self-reliance, equality and mutual benefit, and mutual good faith.

Enterprises owned by the whole people constitute the leading force in China's socialist economy and are decisive in ensuring our socialist orientation and the steady growth of our entire national economy. But their consolidation and development should not be predicated on restriction and exclusion of other economic forms and other methods of management. The collective economy is an important component of the socialist economy, and we can give the collectives a free hand in running enterprises in many areas of production and construction. The individual economy now found in China is linked with socialist public ownership and differs from the individual economy linked with capitalist private ownership. It plays an irreplaceable role in expanding production, meeting the people's daily needs and providing employment. It is a necessary and valuable adjunct to the socialist economy and is subordinate to it. At present, we should try to remove obstacles in the way of the collective economy and individual economy in cities and rural towns and create conditions for their development and give them the protection of the law. We should promote individual economy, particularly in those economic fields mainly based on labour services and where decentralized operation is suitable. Meanwhile, we should, on the basis of voluntary participation and mutual benefit, extensively encourage diverse and flexible forms of co-operative management and economic association among the state, collective and individual sectors of the economy. Some small state-owned enterprises can be leased to collectives or individuals, or run by them on a contract basis. It is our long-term policy and the need of socialist development to promote diversified economic forms and various methods of operation simultaneously. This is not retrogression to the new-democratic economy of the early period of the People's Republic when the socialist public ownership was not yet predominant in town and country. Far from undermining China's socialist economic system, the new policy will help consolidate and develop it.

Marx and Engels pointed out long ago in the *Manifesto of the Communist*

Party that with the exploitation of the world market due to the growth of capitalism, the old local and national seclusion and self-sufficiency had given place to intercourse between nations in every direction, and production and consumption in every country had become cosmopolitan in character. The productive forces including science and technology in our times are developing ever faster. Although international relations are complex and ridden with contradictions, international economic and technological ties are, generally speaking, very close, and national seclusion cannot lead to modernization. Since the Third Plenary Session of the 11th Central Committee, we have taken opening to the outside world to be our long-term, basic state policy, a strategic measure for accelerating socialist modernization. Practice has already yielded marked results. We must continue to pursue flexible policies, reform our foreign trade structure in line with the principle of both arousing the enthusiasm of all quarters and developing a unified approach in our external dealings. We will work to expand economic and technological exchanges and co-operation with other countries, strive for the success of the special economic zones and open more coastal cities. Using foreign funds and attracting foreign businessmen for joint ventures, co-operative management or exclusive investment in enterprises are also a necessary and beneficial complement to China's socialist economy. We must make the best use of both domestic and foreign resources and both the domestic and foreign markets, and learn both to organize domestic construction and develop foreign economic relations.

As we open to the outside world, we shall open up even more between different areas within China itself. We should smash blockades and open doors in the relations between economically more developed and less developed areas, coastal areas and interior and border areas, cities and countryside, and between all trades and enterprises. We must act in conformity with the principle of making the best possible use of favourable conditions and avoiding the effects of unfavourable ones, developing diversity of forms, offering mutual benefit and achieving common progress, and strive to develop economic relations among enterprises and regions, promote appropriate exchanges of funds, equipment, technology and qualified personnel, introduce diverse forms of economic and technological co-operation and run joint economic enterprises. This will speed up the

rationalization of our economic setup and of the geographical distribution of our enterprises and accelerate modernization.

IX. Promote a New Generation of Cadres and Create a Mighty Contingent of Managerial Personnel for the Socialist Economy

Reform of our economic structure and the development of our national economy badly need a large contingent of managerial and administrative personnel, and especially managers, who are both knowledgeable in modern economics and technology and imbued with a creative, innovative spirit and who are capable of bringing about a new situation in whatever they do. The point now is that our contingent of managerial personnel falls far short of the above requirements. We have large numbers of veteran comrades in this contingent who, in the long period of hard struggle, have made great contribution to our socialist economic construction. Their good work style, managerial ability and steadfastness in observing the rules of inner-Party life had an educational influence on many young and middle-aged cadres. But they are getting up in years, and we can no longer ask them to continue in arduous leading posts. Our present urgent task is to promote boldly thousands upon thousands of young and middle-aged managerial personnel and take steps to train them.

Large numbers of talented persons have come to the fore in economic construction, especially in the course of Party consolidation and the reform of the economic structure. Party committees at all levels must take pains to discover and assess them and must not be fettered by outdated ideas and conventions. They must not fault-find and demand perfection and must guard against the influence of factionalism and gossip. When we act in this manner, we can discover large numbers of excellent cadres. Of course, young and middle-aged cadres lack experience in giving leadership. But they can gain experience through tempering in practical work and will gradually do so. Under no circumstances should we use lack of experience as an excuse for holding back young cadres. We have to be analytical in our attitude to experience. Our comrades accumulated rich experience, both positive and negative, in the course of revolution and construction. This is very valuable. Generally speaking, however, all our cadres, old, middle-aged or young, are facing brand-new tasks in the new historical period and all lack the new

knowledge and experience necessary for modernization. All of them will have to re-evaluate their capabilities and make new efforts to learn. It would be wrong to hang on to the outmoded and rest complacent about experience that is no longer applicable.

The Central Committee calls for completion of the reshuffling of leadership in enterprises, especially key enterprises, before the end of 1985. In addition, plans should be drawn up and effective measures taken to train fairly soon large numbers of directors (managers) who can successfully organize and direct enterprise production and operations, of chief engineers who can strengthen technical management and promote technological progress, of chief economic managers who can improve business operations for better economic results, of chief accountants who can strictly uphold financial and economic discipline, do careful budgeting and exploit new sources of revenue, and of Party secretaries who can keep to a correct political orientation and unite the workers and staff members of the enterprises. This is how to create a mighty contingent of managerial and technical cadres for the socialist economy. This contingent should consist of qualified personnel in all trades and occupations for the whole chain of enterprise management.

The Central Committee has pointed out on many occasions that in our drive for socialist modernization we must respect knowledge and talented people. We must combat all ideas and practices that belittle science and technology, the cultivation of intellectual resources and the role of intellectuals. We must take resolute action to redress cases of discrimination against intellectuals which still exist in many localities and to raise the social standing of intellectuals and improve their working and living conditions. All our reforms must lead to progress in science and technology, to greater initiative of the localities, departments, units and individuals in making effective use of intellectual resources and must enable our vast numbers of young people as well as workers, farmers and intellectuals to raise their cultural and technical levels quickly. Those who have made important inventions and innovations or other outstanding contribution should be amply rewarded.

Science, technology and education are extremely important in developing our national economy. Advances in reforming the economic

structure pose as a matter of increasingly urgent strategic importance the reform of our scientific, technical and educational setups. The Central Committee will hold special discussions on these issues and take relevant decisions.

X. Strengthen Party Leadership To Ensure the Success of Reforms

Reform of China's economic structure will be carried out over a fairly broad area and in a fairly deep-going way. It will have a direct bearing on the nation's future and affect the vital interests of millions upon millions of workers, farmers and intellectuals. All Party comrades should stand in the forefront of the reform, which represents the trend of our times. This reform is an exploratory and innovative undertaking by the masses and it is very complex. We are generally now at the stage of accumulating experience in the reform of the entire economic structure which focuses on cities, and the vast number of cadres are not familiar with this work. Leading Party and government functionaries at all levels have to be sober-minded and give meticulous guidance. They should emancipate their minds, seek truth from facts and proceed from reality and carry out Party policies creatively by integrating them with the actual situation in each locality, department and unit. Full consideration should be given to the particularities of the regions concerned in reforming the economic structure in minority nationality regions. All moves in the reform have to be tested in practice, through which new experience will be acquired. Errors can hardly be avoided, but we should make every effort to prevent them whenever possible. Once an error does occur, we must try to discover it promptly, resolutely correct it, draw the lessons and continue to go ahead. We should take active but prudent steps in carrying out reforms. We should carry them out firmly where we are sure of success. Make reforms one by one when the conditions are ripe, and make experiments when we are not sure of success. We must not try to accomplish the whole task at one stroke. All major reforms which affect the whole country will be arranged by the State Council under a unified plan. All localities, departments and units should be encouraged to conduct exploratory and pilot reforms. Nevertheless, any reform involving the

overall situation or one that is extensive in scope must first be approved by the State Council.

Party organizations in numerous localities and enterprises will undergo consolidation next year. Reform should be closely linked with this. Party consolidation should promote economic growth, which is an indicator of how successful it is. While carrying out the reform, we must strengthen the leadership over Party consolidation, making sure that the consolidation will not become a mere formality. The more we enliven the economy and invigorate enterprises, the more we must pay attention to combating the corrosive influence of capitalist ideas, eliminating the decadent practice of seeking personal gain by abusing one's position and authority and preventing any action that seriously harms the interests of the state and the consumers, and the more we should strengthen the building of a fine Party style and sense of discipline and maintain healthy inner-Party political life. In ideological and organizational work in the new historical period, we must firmly carry out the Party's guiding principle that such work should help fulfil the general task and reach the general goal set by the Party and be closely linked with economic construction and reform of the economic structure. We should actively support cadres and the masses who are keen on reforms. When errors or deviations appear in the course of reform, apart from those seriously violating the law and discipline which must be dealt with according to law, we should adopt a policy of persuasion, criticism and education towards the persons concerned and must not stick political labels on them. People with different views and approaches about reforms may discuss their differences. We must not divide the cadres and masses by calling some people "reformers" and others "conservatives." We should have faith in comrades who fall behind the developing situation for a time, confident that they will understand things better in the course of reform. In the past five years of rural reform, many comrades who had doubts about it have been convinced by the facts and have changed their views. The Central Committee has adhered to the principle of patient education in guiding rural reform, thereby ensuring its smooth progress. This is a valuable experience in solving ideological problems inside the Party on the question of major policies, and we should keep to this principle in the future. By citing the facts about reform, we should provide Party members and the masses with lively education in the theory and policies of the reform. This will help them realize

that socialism with Chinese characteristics should be full of vitality, different from the rigid pattern of the past and fundamentally different from the capitalist system. This will deepen their understanding of scientific socialism so that they devote themselves to making reforms.

The reform of economic structure will lead to tremendous changes not only in people's economic life, but also in their mental outlook and way of life. We should build socialist civilization with both a high material level and high cultural and ideological level. This is our Party's unswerving principle. While trying to create a socialist economic structure full of vigour, we should work to create a cultured, healthy and scientific way of life for the whole society that meets the requirements of expanding the modern forces of production and social progress, and eliminate backward and decadent ideas and ignorance. We should foster throughout society an active, forward-looking and enterprising attitude and overcome such forces of habit as complacency, mental sluggishness, fear of change and conventionality. Such an approach to life and such an attitude are important aspects of a socialist civilization that has a high cultural and ideological level. They give great impetus to reform of the economic structure and the building of a socialist civilization with a high material level. Comrade Mao Zedong said, "Mankind makes constant progress and nature undergoes constant change; they never remain at the same level. Therefore, man has constantly to sum up experience and go on discovering, inventing, creating and advancing. Ideas of stagnation, pessimism, inertia and complacency are all wrong. They are wrong because they agree neither with the historical facts of social development nor with the historical facts of nature so far known to us."* This statement is a graphic expression of one of the fundamental points of view of the Marxist world outlook and conception of history. The Chinese Communists take the constant promotion of social development and progress as their historical mission. Our Party led the masses of the people under reactionary rule in the past in making revolution to overthrow the old order. Under the socialist system with the people as masters of the country, our Party has been leading the masses in conscientiously carrying out reforms and building China into a modern, powerful socialist country with a high level of culture and democracy.

The current situation is very favourable to reform. The people are highly creative in this endeavour. By relying on their wisdom and strength

and adhering to the four cardinal principles,** we will certainly succeed in our reform and fulfil the general task and reach the general goal set by the Party's 12th National Congress.

*Quoted in "Premier Zhou Enlai's Report on the Work of the Government to the First Session of the Third National People's Congress of the People's Republic of China", (December 21-22, 1964).

**This means keeping to the socialist road, upholding the people's democratic dictatorship, upholding leadership by the Communist Party, and upholding Marxism-Leninism and Mao Zedong Thought.

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China's Socialist Economy

An Outline History

(1949-1984)

Incorporating the results of research by well-known Chinese economists, this work is a first attempt to give an account of the development of China's socialist economy. It includes many previously unpublished details of events and figures which have emerged through the sifting of a large quantity of historical documents. Readers interested in China, especially students of China's economic history, will find the book invaluable.

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A New Plan for Socialist Modernization (1976-84).

Tracing the course of developments through the ups and downs of each period, the authors sum up basic achievements and analyze shortcomings and mistakes in each period since 1949.

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